

WORLD BRIEFS

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AMERICAN TOPICS

Old Faithful
Turning Fickle

All of a sudden, Old Faithful isn't.

The thundering geyser at Yellowstone National Park has erupted like clockwork every 64½ minutes, on the average, as long as anyone can remember. But visitors this summer found the blowouts varying erratically, with intervals commonly lasting 60 minutes or more.

Roderick A. Hutchinson, the park's chief geologist, said the cause is a series of earthquakes during the past year centering on Challis, Idaho, 150 miles (240 kilometers) due west. Dozens of its other 200 geysers have changed their rate of eruption because of the quakes.

Even when off schedule, however, Old Faithful is a stupendous spectacle. Tourists on the wooden walkways surrounding the geyser's caldera still break into applause when the eruption bursts forth with a roar like a freight train, shooting water 100 feet or more into the clear mountain sky.

Cyanide Pills
For Undergraders

Brown University undergraduates will vote next week on whether the institution should stockpile cyanide pills that students could take during a nuclear war. About 700 students signed petitions asking that a nonbinding referendum on the idea be put on the Oct. 10-11 student election ballot.

The ballot reads: "We, the undergraduate students of Brown University, request that (Student) Health Services stockpile cyanide pills for optional student use exclusively in the event of a nuclear war."

Referendums on issues other than student government merely express undergraduate opinion and have no binding effect on the university. Dr. Sumner Hoffman, director of Student Health Services, called the idea nonsense.

"Our mission is to sustain life, to improve the quality of life, to treat illness, not destroy life," he said.

Accent? C'wan!
She Talks 'Queens'

"Lemme just put it to ya this way," Geraldine A. Ferraro began in her finest oratorical

style. Vowels were flattening and syllables were dropping, but her audience in Providence, Rhode Island, listened raptly, caught up in the brassy, sassy speaking style that the Democratic candidate for vice president has brought to the election campaign from New York's borough of Queens.

Ms. Ferraro's colloquial diction and frank approach have bemused audiences from Boston to Los Angeles. People have taken to yelling back her familiar exclamation with their own efforts at a New York intonation: "Yeh-teh-ri-fic!"

But her habit of running words together out of the side of her mouth sometimes leaves her audience confused. In Providence, one man asked his companion if Ms. Ferraro had proposed that "we chuck our children." No, he was assured, she had suggested that "we educate our children."

In the same speech, a few listeners looked startled when it sounded as if the candidate was accusing President Ronald Reagan of having a drug problem. It took a prepared text to shed linguistic light. "The president," she had said, "has a habit of taking bows while the heroine is still tied on the tracks."

U.S. Congress, Stalled
On Spending Measure,
Agrees on Foreign Aid

Compiled by Our Staff From Dispatches

WASHINGTON — House and Senate negotiators failed to finish work on a huge federal spending measure Friday, but agreed on a \$14.3-billion foreign aid package that includes record amounts for Israel and Egypt and less for Turkey than the administration had requested.

But disputes on other issues prevented completion of work on a \$300-billion omnibus spending bill that would fund most government operations for the next 12 months. The House-Senate conference committee adjourned until Tuesday.

Until the negotiators can agree on a spending bill and it is signed by both chambers of Congress and President Ronald Reagan, the money to keep about 500,000 fed-

eral employees at work depends on a series of stopgap funding extensions. The employees returned to work Friday after a half-day furlough Thursday ordered by the White House.

Both the House and Senate passed a new stopgap bill by voice vote late Friday and sent it to Mr. Reagan.

The compromise on the foreign-aid package, which is included in the spending legislation, provides about \$150 million less than was requested by the Reagan administration and slightly more than the \$14 billion approved for the 1984 fiscal year that ended Sept. 30.

The conferees set military aid for Turkey at \$700 million, short of the administration request for \$755 million but well above the original House limit of \$548 million.

The House had sought to pressure Turkey to make concessions for the reunification of Cyprus and withdraw Turkish forces from the northeastern part of the island.

Greece is to receive \$500 million in military aid, the full amount requested by the administration.

The negotiators agreed to \$128.25 million in military aid for El Salvador, \$4.25 million less the administration requested.

The largest amounts of aid again go to Israel and Egypt. Although their total amounts were slightly lower than last year, Congress approved administration plans to make all the military aid in the form of grants, rather than loans. The move is seen as a significant help to both countries.

Israel is to receive \$1.2 billion for economic support and \$1.4 billion for military aid. Egypt's share would be \$850 million in economic aid, \$1.175 billion in weapons grants and \$300 million in various other assistance.

While most differences in the omnibus spending measure had been resolved, the House and Senate negotiators continued to dispute a previous agreement between House and Senate leaders on an overall Pentagon budget. House negotiators said they were not.

Also among the problems were House insistence on \$18 billion in water projects, a dispute on whether to ban aid to anti-Sandinist Nicaraguan rebels, and House attempts to reduce the research program on the military use of space down to \$1.35 billion.

(AP, UPI)

Longest Night
For the Senate

(Continued from Page 1)

to budge on his proposals. More delays over budget procedures caused a backlog of appropriations bills.

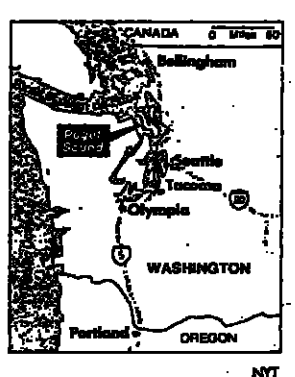
By then, with a dogged calendar and fiscal 1984 nearing its end Sept. 30, Senate leaders agreed to wrap nine pending appropriations measures into the continuing resolution and ram it through after the House moved its own version quickly.

The Senate took it up, but it quickly began taking on the look of a well-adorned Christmas tree, even as veto threats rumbled from the White House. More than four full days were lost in a conservative filibuster of civil-rights legislation that was backed on to it.

Once the rights measure was removed, though, dozens of home-state projects were added and the Senate, under its rules, was forced to deal with each and every one.

And then there was the chicken-farmer amendment. Mr. Heinz was seeking money for Mr. Moyer and another \$136,167 for Keystone Mills of Ephrata, Pennsylvania, to pay for the chickens that were gassed after the Department of Agriculture erred during an outbreak of avian influenza last winter.

As justified as the claim might have been, it got lost in the shuffle. As work was completed on the continuing resolution, unable to plead the case. The amendment was shelved and there wasn't a single squawk.



Agency and the Washington state Department of Ecology have ordered a cleanup, at a cost of hundreds of millions of dollars. William D. Ruckelshaus, who during the Nixon administration became the first EPA administrator, lived in a Seattle suburb for seven years before returning to the agency two years ago.



CARIBOU CATASTROPHE — Thousands of caribou drowned last weekend when they tried to cross a treacherous stretch of rapids and waterfalls in the swollen Caniapiscau and Kaksoak rivers in northern Quebec. Unusually heavy rains are blamed for causing flooding areas to rise, and more animal drownings are feared.

Poll Shows Reagan Leading in Nearly Every State

By David S. Broder
and Barry Sussman

Washington Post Service

WASHINGTON — President Ronald Reagan, heading into Sunday's presidential debate, leads Walter F. Mondale in nearly every state and by a wide enough margin to boost the hopes of Republican candidates for the Senate, the latest Washington Post-ABC News poll shows.

The poll, conducted between Sept. 22 and Oct. 2, is an unusually large sample of 12,000 people designed to measure the presidential race on a state-by-state, as well as a national, basis. It also surveyed individual races for the Senate and House.

Nationally, Mr. Reagan led Mr. Mondale by 18 percentage points, 55 percent to 37 percent. The margin is up slightly from the 16-point lead in a poll taken Sept. 6 to 11.

But the breadth of his lead was shown more clearly in the state-by-state polls. Mr. Reagan led everywhere except the District of Columbia and Rhode Island. In Rhode Island, he and Mr. Mondale were even. California and New York were the only other states where Mr. Reagan's lead was less than 10 points — 6 in California and 7 in New York.

The sampling error ranges from less than 4 points to about 8 points, depending on the number of interviews in each state.

Republicans have also widened their lead over the Democrats as the party that voters trust to do a better job in coping with the nation's problems. Last May, the Democrats led 42 percent to 40 percent on that measure. By early September, the Republicans were favored, 49 percent to 39 percent. In the new poll, the Republicans lead 47 percent to 33 percent — their largest margin ever.

In Senate races, the individual state samples suggest that Democrats are in position to challenge for Republican-held seats in at least four states. But Republicans, who once feared their majority of 10 seats in the Senate might be eliminated, may now be able to keep their losses to a minimum.

Mr. Reagan's party has 55 members in the Senate to 45 members for Mr. Mondale's party.

Democrats are far ahead in Tennessee, slightly ahead in North Carolina and narrowly behind in Illinois and Iowa. The only Democratic seat that looks promising to the Republicans is in Massachusetts, but the Democrats are still slightly ahead there.

Mr. Reagan's margin in several important states — 11 points in Ohio, 13 in Pennsylvania, 14 in Michigan, 17 in Illinois, 18 in North Carolina, 20 in Texas, 21 in New Jersey and 26 in Florida — makes it clear that Mr. Mondale must try to move the electorate nationally. No targeted tactic

aimed at a small number of states or voters offers him hope of success in the final month.

Doing Better, Mondale Says

Mr. Mondale, asked about the poll at a campaign stop in Rockville, Maryland, conceded that he was behind in his race for the White House but contended that he was doing better than the survey shows, the Los Angeles Times reported.

"There's no question that I am behind now," Mr. Mondale said. "I

am convinced that in the last 10 days, we have started to pick up. I think Americans are now beginning to concentrate on the issues."

He said that he was confident that he was gaining support. "I'm not arguing we are ahead now," Mr. Mondale said. "I don't believe that's true. I think we are doing a lot better than these estimates."

Mr. Mondale also said that he did not believe he was behind by 11 points in Minnesota, his home state, as the poll showed.

3 Debates Between U.S. Candidates
Will Be Aired in Europe and Asia

International Herald Tribune

PARIS — The Voice of America and American Forces Network plan to broadcast the presidential debates between Ronald Reagan and Walter F. Mondale and the vice presidential debate between George Bush and Geraldine A. Ferraro.

The Voice of America will broadcast the first Reagan-Mondale debate from 0100 to 0230 GMT on Monday and the second debate from 0100 to 0230 on Oct. 22. The Bush-Ferraro debate will be broadcast from midnight to 0130 on Friday.

Excerpts will be repeated during the day on scheduled news broadcasts.

Frequencies for Europe are 4200, 6040 and 3980 kilohertz on shortwave. In Asia the frequencies are 21540, 17735, 15330, 15290, 15210, 11795, 1580 and 1143 kilohertz on shortwave.

American Forces Network, based in Frankfurt and heard mainly in northern Europe, has scheduled a broadcast from 0200 to 0330 local time on Monday with a repeat the same day at 1805. The second Reagan-Mondale debate will be broadcast from 0100 to 0230 local time on Oct. 22 with a repeat the same day at 1905. The vice presidential debate will be broadcast from 0200 to 0330 on Friday with a repeat the same day at 1905.

The major frequencies for American Forces Network in Europe are 873 AM or 89.7 FM. No live television transmission is planned but a delayed showing is scheduled for all three debates at 1900 GMT on Oct. 8, 12 and 22. American Forces Network also will broadcast the debates in the Far East and Southeast Asia.

Reagan Says He Didn't Know
Of Land Sales' Racial Terms

United Press International

LOS ANGELES — The White House said Friday that President Ronald Reagan was not aware that the deeds to several Los Angeles lots that he bought and sold in the 1940s stipulated that only whites, and their servants, could live on the property.

"He was not aware that covenant was in the documents when he bought those properties or turned them over to Jane Wyman," his former wife, said Larry Speakes, the deputy White House spokesman.

Mr. Reagan and Miss Wyman, who were divorced in 1948, bought five lots from 1941 to 1943 in Hollywood Hills. County documents show four of the lots were covered by deeds or covenants that barred nonwhite owners.

Racially restrictive real estate covenants were not uncommon at that time. Such restrictions were ruled unconstitutional by the Supreme Court in 1948.

County records show that Mr. Reagan and Miss Wyman bought two lots in 1941 that carried racial clauses, and a third that did not. The couple bought two more lots in

the same tract in 1943, to which the racial covenants did apply.

In 1945, the Reagans sold two of the lots, specifying on the deed that the sale was subject to previous covenants and restrictions.

Three years later Mr. Reagan gave the remaining three lots to Miss Wyman, who sold them.

Reagan Plans Train Tour

The White House announcement came as Mr. Reagan planned for a Truman-style whistle-stop tour next week in Ohio, in what was seen as a new appeal for the votes of Democrats. The president will use the same rail car that President Harry S. Truman used in his 1948 campaign, The Associated Press reported.

The rail car, the Ferdinand Magellan, has armor plating and bullet-proof glass.

On Thursday, Mr. Reagan made an appeal for non-Republican votes during a White House appearance with Republican candidates and members of Congress, The New York Times reported. He asked for the support of "young Americans, independents and rank-and-file Democrats."

CAMPAIGN BRIEFS

President to Have a Special Podium

WASHINGTON (WP) — President Ronald Reagan's top advisers, in negotiating the debates with Walter F. Mondale, made a point of insisting to Mr. Mondale's strategists that Mr. Reagan be allowed to use a specially equipped podium that will amplify questions so the president can hear them.

The Reagan team was concerned that a misunderstood question or misdirected answer could mar the president's style. Their most serious concern was that Mr. Reagan, 73, might do or say something that would raise doubts in voters' minds about whether he is up to the job.

The president wears a hearing aid because he has difficulty hearing in one ear, the result of a gun fired near him on a Hollywood movie set many years ago. A Mondale official said debate negotiators struck a deal: Mr. Reagan could use the special podium and Mr. Mondale could have the Sunday session last 90 minutes.

Ferraro Assails 'Inaccurate' TV Ads

NEW YORK (AP) — Geraldine A. Ferraro has accused her Republican opponents of airing inaccurate television ads that are "almost like brainwashing."

In Harrisburg, Pennsylvania, on Thursday, the Democratic vice-presidential candidate told a town meeting: "What you are seeing on television is not accurate. The problem that I have is that so many people are buying the inaccuracies of this administration, accepting them as true and then, I'm afraid, indicating support for President Reagan because of the inaccuracies."

"And if you keep those ads going over and over and over and over again, it's almost like brainwashing. After a period of time, people begin to get the subliminal message that maybe things are better... and they are really not."

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This is where the "we" comes in. At Daewoo, people are our greatest resource. The kind of people who speak an international language of enthusiasm and innovation.

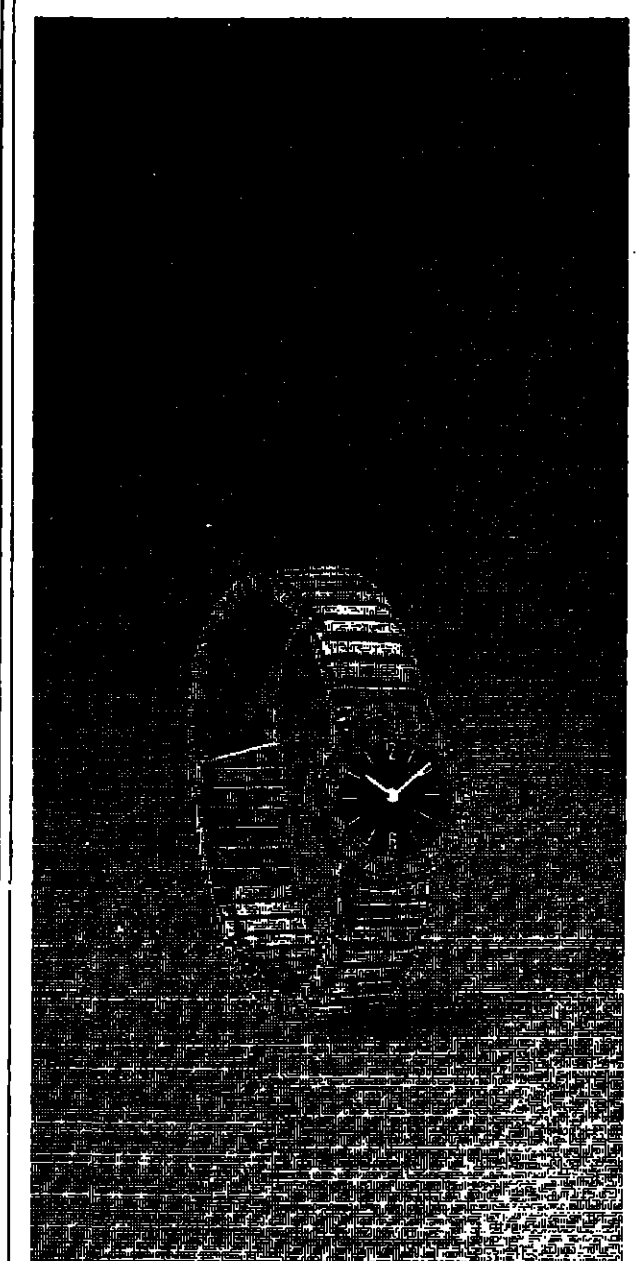
People who earn, and keep, a reputation for getting the job done. And done on time. In short, the kind of people who make good partners.

Today, Daewoo stands tall among the giants of the world. Meeting the needs of a wide range of the world's top businesses. This dedication to diversity has helped Daewoo achieve over \$4 billion in consolidated sales in 1983. Divided we stand. True today. True tomorrow.

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AVENUE DES BEAUX-ARTS - MONTE CARLO
HOTEL PLAZA-ATHÉNÉE - PARIS

Herald Tribune

Published With The New York Times and The Washington Post

Another Troubling Wisp

Another wisp of information on the Sakharov case came out of the Soviet Union the other day. It was a postcard to her American children from Yelena Bonner, Andrei Sakharov's wife, who was reported in August to have been sentenced to a five-year term of internal exile in Gorki for anti-Soviet conduct. The children described the postcard as the first authentic message received from Mrs. Bonner in the West since April. It was, however, far from a complete and satisfying message. Internal evidence indicated that it was probably wrongly dated. There was no mention of Mr. Sakharov or Mrs. Bonner's health, and no indication of whether the two are together.

In brief, the postcard is one more piece of evidence of the KGB at work. Its commissions and omissions suggest that the hand on the pen writing it was not Mrs. Bonner's alone. The postcard is the latest in a series of official releases of different sorts indicating that Moscow hopes to reduce the Sakharov question as an irritant in Soviet-American affairs. All these releases, however, raise questions. They are tantalizing yet finally insubstantial. They are a modest but courageous step, in the circumstances, with the extradition of three Basques to Spain.

The decision produced a tremendous outcry, and some killings, but the fuss is abating. This affair is an example of how slowly the democracies have moved toward recognizing that law-abiding nations have a common interest in fighting international crime.

Traditional ideas of national judicial sovereignty still weigh heavily among states, long after criminals have learned to make the best of borders.

The Basque case has a special background, as well as a basis of general principle. France, like America, is proud of its long tradition as a land of asylum. From the time of Franco's victory in Spain's civil war, Spanish refugees have had a special claim on French sympathies, especially the actively anti-Franco Basques.

More important in recent years, though seldom avowed, has been the fact that ethnic Basques live on both sides of the border. There was a tacit assumption, perhaps even an understanding, that if France provided safe haven for Spanish Basque terrorists who made it across the frontier, there would be no Basque agitation and terrorism on the French side.

In the 1970s there was something similar between French authorities and visiting terrorists acting in the name of Palestinians and radical Arab states. Inevitably

—THE WASHINGTON POST.

So Much for Civil Rights

Conventional wisdom in America holds that an undesirable Supreme Court reading of a law is less serious than such a reading of the Constitution because Congress can always change the law. But the death this week of the 1984 civil rights bill belies such assurances. It died by filibuster despite the desire of nine-tenths of the House and three-fourths of the Senate to revive four civil rights laws evicted by a Supreme Court decision.

The overwhelming majority failed because the Senate ran out of energy, time and, ultimately, the will to outlast Senator Orrin Hatch and his small band of diehard opponents. The administration helped the obstructionists.

The trouble began last year when the Justice Department injected an unnecessary, mischievous argument into the Supreme Court's pending case involving Grove City College in Pennsylvania. The court needed to decide only whether the college, as the beneficiary of federal student aid, was legally required to follow the rules against sex discrimination.

The justices unanimously ruled against the college on that question but then went on, at the Justice Department's urging, to indicate that the anti-discrimination laws would be binding only on the office (in Grove City's case, the student aid office) directly receiving the federal benefits. The court's language was broad enough to undermine enforcement of laws against discrimination by race, age or physical disability as well as sex.

A coalition of civil rights groups persuaded a big House majority to change the law in order to restore its previous intent. The Senate version had 63 sponsors and at least 70 votes.

The administration refused to join the coalition. Instead it permitted William Bradford Reynolds, assistant attorney general for civil rights, to stall, then claim far-reaching unintended consequences for the simple reform measure. All had the effect of abetting the bill's opponents, led by Senator Hatch. In the end, Senator Bob Packwood moved to table the bill he co-sponsored, saying its foes had succeeded in tying it in parliamentary knots.

A timely word from the White House might have avoided that, but President Reagan again chose to turn his back on civil rights enforcement. Now the chances for restoring legal protection to the victims of discrimination depend on the election and its aftermath. It is tragic that such an uphill fight should be required for issues that were settled years ago.

—THE NEW YORK TIMES.

Other Opinion

South Africa and Mozambique

What exactly was agreed in Pretoria is unclear, with some Mozambique sources denying that there is even a cease-fire. But it seems likely that the fighting will end, that Mozambique will receive increased economic aid, that there will be an amnesty for the rebels and that their organization will be given some sort of recognition or status. This must be good for hard-pressed Mozambique.

[President P.W.] Botha emerges with credit. He has ambitions as an African statesman. There are persistent reports of his planning to visit Gabon and perhaps some other West African states, probably next year. He would be following in the footsteps of the late Prime Minister B.J. Vorster, who visited Liberia and the Ivory Coast in the 1970s. South Africa will presumably one day become the 53rd member of the Organization of African Unity, though it will probably be called Azania by then and certainly Mr. Botha will no longer be its ruler. In the meantime it is still part of the continent and can be seen to have a role to play.

—The Times (London).

A year ago it would have seemed a fantastic notion that South African troops should monitor a cease-fire in Mozambique, with the full approval of a supposedly Marxist government. But such seems to be the outcome of a meeting, chaired by the South Africans, between the Mozambican government and the rebellious Mozambican resistance movement Renamo.

This startling development seems to confirm [a] political revolution in southern Africa. Far from appearing a despised, isolated and aggressive power, South Africa can cast herself as a benign and stabilizing influence. It is of course not quite as straightforward as that.

South Africa, if she did not precisely invent Renamo, nurtured and subsidized it to enfeeble the Mozambican government. The question is whether Renamo, deprived of South African support, is an unstoppable guerrilla movement which has set its sights on becoming the next government of Mozambique. The South Africans no doubt genuinely want peace in Mozambique and they may get it. But it is

not inconceivable that they have given birth to a monster which they can no longer control.

—The Daily Telegraph (London).

Machines Are Still Dumb

Three years ago Japanese industry and government combined to launch the Fifth Generation project, dedicated to developing computers that could see, understand human language and reason. American computer scientists worried that the United States was about to be eclipsed in artificial intelligence. American computer companies joined to form Microelectronics and Computer Technology Corporation, which set up shop in Austin.

Neither [side has] solved the basic problems that stand in the way of developing truly thinking machines. So-called expert systems have had a modicum of success in mimicking the thought processes of human experts in specific and severely limited fields such as medical diagnosis and geological prospecting. But no one knows how to expand the idea to enable machines to think about any subject that may come up, which humans do with ease. Nor does anyone know how to write a program that can distinguish one face from another or that can read a novel and summarize the plot.

So distant are these goals that researchers disagree about what it would take to achieve them. Some say that current tools are incapable of solving the problem and that a breakthrough is necessary. One can't fly to the moon by learning to climb trees. Others believe that computer techniques already known hold the key to the problem but must still be combined in a clever way with more powerful machines.

The history of science is littered with the bodies of people who said that one thing or another was impossible. The existence of the brain demonstrates that it is possible to pack a lot of computing power into a small space and have it operate efficiently. But all efforts to build a machine that can do the same thing have fallen far short of the mark. Some day the problem may be solved, in Japan, in Texas, or in a place no one has yet thought of. So far, though, artificial intelligence is real stupidity.

—The Los Angeles Times.

A French Move Against Terrorism

By Flora Lewis

PARIS — It is over a decade now that Western governments have been issuing solemn declarations about joining to combat terrorism. France has finally taken a modest but courageous step, in the circumstances, with the extradition of three Basques to Spain.

The decision produced a tremendous outcry, and some killings, but the fuss is abating. This affair is an example of how slowly the democracies have moved toward recognizing that law-abiding nations have a common interest in fighting international crime.

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In the 1970s there was something similar between French authorities and visiting terrorists acting in the name of Palestinians and radical Arab states. Inevitably

the arrangement broke down. After a series of Arab terrorist incidents in France, the French at last got tough and their neighbors in Western Europe benefited.

But there was greater reluctance to face the Basque issue. It continued after the death of Franco in 1975 and important reforms by Spain's new democratic regime to meet demands for regional autonomy. Even with friendly Socialist governments in both Paris and Madrid, the French hated to take the risk of sending back people for trial on well documented charges of wanton murder.

Last week, after much tortuous negotiation, France finally extradited three of seven people sought by Spain; four others were deported to accommodate Togo. Paris would have preferred to split the difference between principle and politics by extraditing one and expelling six, but there was no way to distinguish among the three who seemed most guilty.

Not only French and Spanish Basques exploded in anger at the precedent. The French Communists, while professing to deplore "blind terrorism," denounced the government for violating "human rights" with the extraditions.

Nobody suggested that the three men might be innocent. The argument was that their motives were certainly "political" and therefore entitled them to refuge.

Cynically, the Communist statement added that the government action ran "serious risk of reprisals on our own territory and against French interests in the Spanish Basque country."

Many other Frenchmen were honestly disturbed at the change of longstanding policy, despite the government's careful explanation that murder in a democracy cannot be justified by a political cause.

Other cases are pending. It remains to be seen whether Paris will continue to show the courage of its conviction. Extradition is always a complex issue because judicial systems vary, but it represents a minimal consensus among nations in confronting intolerable crime.

There are parts of the world where murder is an accepted, even state-supported instrument of politics. There are others — including the United States and Italy, as recent Mafia revelations show — where enormously powerful underground organizations presume to put themselves above the law. The difficulties of bringing criminals to justice in a disorderly world make it all the more important that countries that support the rule of law cooperate on a reliable, regular basis.

Impotent governments, as in Lebanon, cannot be blamed for the failures to protect themselves. They cannot even protect themselves. Nor can the United States adopt the spy-thriller solution of "going to the source" in combating foreign terrorists, as Secretary of State George Shultz suggested. But it is time for law-abiding countries to make clear, in practice as in words, that none of them are safe at any time for any murderer. The French move was a step in the right direction.

The New York Times.

Worrying Findings For Hong Kong

By Jonathan Power

LONDON — On Sept. 25, the day before Britain and China initiated their agreement on the 1997 transfer of Hong Kong to China, Amnesty International published a report of human rights practices in China. The report received adequate coverage in Britain but no politician or newspaper commentator appeared to link the two events.

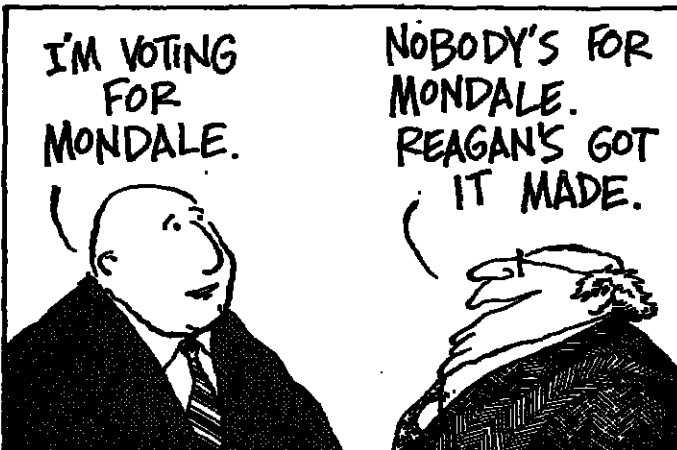
The Chinese, such is their grace and diplomatic dexterity, get away with a lot. When was the last time a Western politician of standing took them publicly to task for what Amnesty describes as the "tens of thousands of mass executions, of political prisoners held for years without trial and of ill-treatment of prisoners?"

What do the people of Hong Kong have to fear? The Amnesty report is 13 pages of bad news. "There is no recognition, either in law or practice, of the right to be presumed innocent before being proved guilty.... Political prisoners have been held for years without charge or trial.... Forty-four crimes are now punishable by death...."

The pessimistic tone contrasts with the upbeat approach taken in 1978 in the previous major Amnesty report on China. The death of Mao Zedong in September 1976 had allowed the shutters to be raised somewhat on Chinese life. It seemed for a moment that the new leaders and Amnesty were marching to the same tune. In the summer of 1979, new laws revising the criminal statutes were submitted for approval to the National People's Congress. A citizen's rights were now to be protected from infringement by any person or organization. It was forbidden to extort confessions by torture, or to gather a crowd "to beat, smash and loot," or to "detain illegally or prosecute on false charges."

But the new statutes still allowed "counter-revolutionaries" to be prosecuted. And by mid-1979 it was clear from the ambiguity of the new legislation and from the government's practices that the brief moment of daylight was over. Things have not changed for the better in the 1980s.

International Herald Tribune.



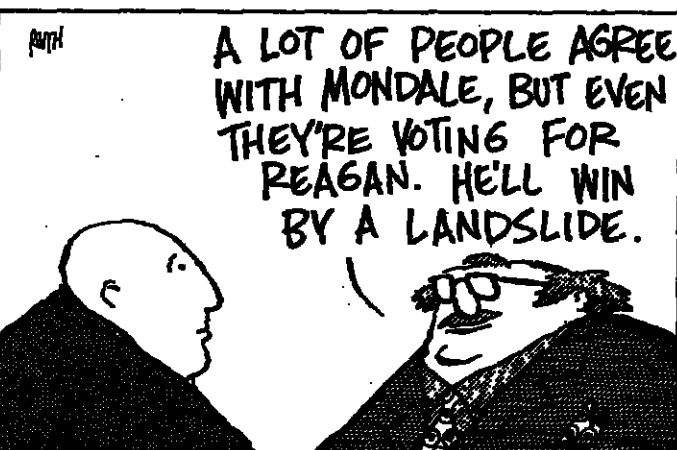
Mondale Strains to Save His Campaign

THE debate in Louisville Sunday night is the beginning of the end of the presidential campaign. Normally it would figure to be an electric event, but President Reagan has built a huge lead that gives promise of setting up a landslide in the Electoral College. The reach and solidity of the Reagan lead constitute by far the outstanding feature of the campaign.

In Louisville Mr. Mondale hopes to show Americans that he is a serious leader, a man who would be a superior president. His aides figure that such a showing would bring back to the Democratic fold enough voters to cut the Reagan lead by five or six points. They would then be going after a Reagan up by only eight points or so. They would concentrate on touchy issues, mainly foreign policy — where Mr. Reagan has a track record of going laywired under pressure. In the second debate, on Oct. 21, Mr. Mondale would try to work those issues in ways designed to woo weak Democrats back to the party.

Even those of us most sympathetic to Mr. Mondale have to acknowledge that this is a strategy of desperation. It reflects a failed campaign. A month before the election, the candidate of the majority party, a figure prominent in national politics for 15 years, has yet to prove he is truly presidential.

—Syndicated columnist Joseph Kraft.



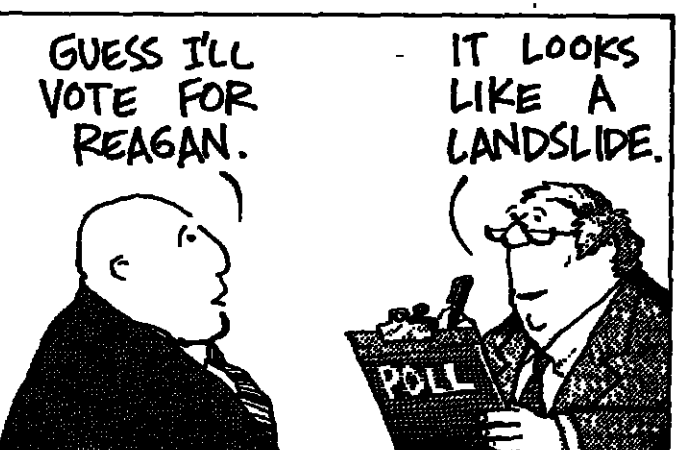
American Pocketbooks Prefer Reagan

A RUMOR has been going around that the American people agree with Walter Mondale on the issues but are going to vote for Ronald Reagan because they think the president is just a great guy. They like Reagan.

Well, a lot of people have been churning by the president's easy style and optimism since he took office three and a half years ago. But it was only two years ago that most folks were ready to vote against him, at least according to polls, when the country was in deep depression and they thought their own lives were going down the drain with Reaganomics.

That is the real issue — people's own lives and pocketbooks — and that is the issue on which most voters think that Walter Mondale is wrong, or at least bad for them. They may agree with the Democratic candidate about arms control and abortion, but if they think Mr. Reagan is better for them financially, they will probably vote for him. Democracy is the sum total of millions of individual self-interests.

—Syndicated columnist Richard Reeves.



Television Makes for Shortcut Politics

A FEW months ago I was preparing a publicity tour to promote a book. Each tour stop involved television, so I called a friend with years of experience at the Public Broadcasting Service and asked for tips. His advice: "Don't try to use your TV time to present a lot of information, because television just won't work for that. Instead use it to convey an impression."

On television even an exchange of arguments and evidence is likely to be dominated by appearance. Experts said the failure that contributed most to the loss of the 1960 television debates between John F. Kennedy and Richard Nixon was the poor performance of Mr. Nixon's makeup man.

Our society has become such a stimulus-saturated, information-overloaded place that we frequently take a shortcut approach. Television is the perfect medium for shortcut responding. Other media require us to do mental work to construct a picture of the concept at issue.

Whenever a political spot comes on the screen, I just close my eyes and listen. I listen for evidence, for rational argument, for logic. By shutting out the easy, visual impressions, I force myself to work actively at the message, not to receive it passively. This tactic seems to be effective for me. Of course, anyone can do it. You just have to close your eyes and listen... hard.

—Robert Cialdini, a psychologist, writing in Newsday.

Now for the 1984 Campaign Debates

An Upstart Defies President Feelgood

By Tom Wicker

NEW YORK — The first debate with President Reagan offers Walter Mondale his best and probably last chance to turn the presidential campaign into a close race. That he might do so seems a somewhat better bet than the polls suggest.

Two precedents are worth noting. On Sept. 30, 1968, Hubert Humphrey was about as far behind Richard Nixon (15 points in the Gallup Poll) as Mr. Mondale is now behind Mr. Reagan. But that night, from Salt Lake City, the democratic candidate delivered a nationally televised speech in which he separated himself from President Johnson's position on peace negotiations in Vietnam.

That turned the campaign around. By Oct. 12, Mr. Nixon's lead in the Gallup Poll had been cut to 43-31; by Oct. 21, to 44-36. And on Nov. 2, both Gallup and the Harris Poll had the two major candidates all but even at 42-40. Mr. Humphrey actually surged ahead, 43-40, in the last Harris Poll, and ultimately lost by a eyelash — Nixon 43.4 percent, Humphrey 42.7, George Wallace 13.5.

So big leads can be quickly overcome — although it should be pointed out that there was no incumbent running in 1968, and that no single issue seems as dominant this year as the Vietnam War was then.

The second precedent consists of the results of all three previous presidential debates: Nixon-Kennedy in 1960, Carter-Ford in 1976 and Carter-Reagan in 1980. In each, an incumbent suffered by allowing his challenger to appear on the same platform, at presidential level. (Mr. Nixon had been vice president for eight years and was considered virtually

an incumbent). Polls suggested, for example, that the Carter-Reagan race in 1980 was close until Mr. Reagan's performance in the debate began to break it open for him.

Political precedents only suggest possibilities. But other evidence indicates — at least to me — that the president's big lead could yet be shaken. The third terrorist bombing in Beirut, followed by the lame excuses from which Mr. Reagan had to retreat, followed by the evidence of laxity in providing security at a clearly endangered embassy, threatens his leadership reputation and mocks his don't-push-America-around rhetoric.

The Reagan-Gromyko meeting, which the White House designed to camouflage the deepened Soviet-American hostility that Mr. Reagan has produced, had negative results that may have called more attention to that hostility than Mr. Mondale could have by himself. The administration's embarrassment at being forced to reject a Contadora treaty that Nicaragua is willing to sign tends to confirm that Mr. Reagan does not want a settlement; he wants the Sandinist government overthrown.

The indictment of Labor Secretary Raymond Donovan, which will not come to trial until after the election, may revive the "sleaze issue." The pressures that forced Vice President George Bush to disclose his income tax returns may mean that the Republican candidates can no longer sail along as serenely above the real world as they did in September.

Does any of that really matter?

Maybe not. Mr. Reagan is campaigning effectively as Dr. Feelgood, dispensing patriotism, optimism and eyewitness, with nothing missing but rose-colored glasses and an Uncle Sam suit. He is so neatly packaged that he could be sponsored.

The economy looks good on the surface, nobody seems to care about the deficit and too many Democrats think the biggest national problem is Walter Mondale's whine. Unless the Beirut fiasco has shaken it, the president's ability to portray "strong leadership" is an invaluable asset that his challenger seems unable to match.

Mr. Mondale's tax program is bold but ill-considered, and his protectionism is not even bold; but overall he is making more sense than Mr. Reagan, notably on arms control and Soviet-American relations. His problem is that President Reagan professes to see no issues that cannot be resolved by prayer in the schools and money in the Pentagon.

Even in the debates, Mr. Reagan's packagers have seen to it that he will be screened from the challenger by willing reporters, which makes it all the more difficult for Mr. Mondale to inflict scar tissue on the presidential image. He might win on points, as Mr. Carter probably did in 1980, and still lose in the perception of the public as Mr. Carter surely did.

Still, Mr. Reagan's vulnerabilities exist, somewhere under Dr. Feelgood's jolly performance. If Mr. Mondale can get at them, it will not necessarily win him the election but it might remind the public that two candidates are in the race and neither is running for cheerleader.

The New York Times.

Both Side's Flash Cards Will Be Mean

By William Safire

WASHINGTON — The referee has just told the contestants to shake hands and come out fighting. In each man's corner, the seconds are rifling through briefing books and whispering last-minute instructions.

In the Reagan corner, these are the central points on the flash cards:

- Forget you're the champ, come out like the challenger. When you're asked about bringing on the worst downturn since the Great Depression, blame the Carter-Mondale inflation and 21-percent interest rates. Remind the crowd about the "misery index" that doubled in the Carter-Mondale years, which you halved. Never forget that your opponent's first name is Carter.
- Don't let them get you defensive about the deficit. Stand tall against red ink, blame the big spenders in Congress for the deficit. Say the worst way to bring it down is with your opponent's tax-and-spend plan, which you estimate at \$1,800 additional per family. Charge that this would about the recovery and throw millions out of work. Then challenge Mondale to join you in supporting the balanced-budget amendment.
- Wear a look of shocked disbelief during all of his answers. Begin all your rebuttals of his answers with your favorite "Forgive me, but..." which enables you to cast aspersions on his truthfulness without losing your nice-guy image. Toward the end, shake your head and ruefully smile. "There he goes again."
- Hear the question you want to hear, not the one asked. Some reporters will ask how you reconcile promises to reduce the size of government with your record of increasing the federal percentage of GNP from 20 to 24 percent. This only worries right-wingers, who have no place else to go, so turn any big-spenders charge into a pitch for your defense budget. When you called Jimmy Carter to apologize for blaming him for your three defeats by terrorists in Beirut, he asked that you stop claiming inaccurately that he cut the defense budget. Since that stings, say it again.
- Counterattack on the sleaze factor. If they come at you for the ethical lapses, stock dealings or criminal activities of your appointees, come to the defense of Geraldine Ferraro. Blast the damnable media for making it impossible for good people to serve the public, and pledge that you, for one, just will not join in the smearing of this fine woman just because she took an illegal hundred thousand for

her campaign from her rich husband. Meanwhile, in the Mondale corner, handlers apply stick makeup to the dark circles and tell him this:

- Whatever the first question is, throw a left: "If Reagan is elected again, Social Security and Medicare benefits are in mortal danger."
- Warn the viewers of "December surprises" if the right-winger is unleashed. Go down the list of entitlements to be slashed and invite your opponent to deny his secret plan; this will throw a scare into everybody over 60. If you accuse your opponent of going to the aid of the gossamer, ask him what he calls his prediction that Democratic deficit reduction will bring recession. Get him angry; it could cause a classic gaffe.
- Demonstrate how out of touch the president is right now. In answering a question directed at you, toss a question at him: "I'll bet he doesn't

even know the names of his own Council of Economic Advisers." In fact, nobody knows that, but such a jab may catch Reagan guiltily consulting the cribnotes on his cuff.

- Make an issue of the war-torn cabinet. Try your secretary of labor has just been indicted for stealing; your attorney general is the seat-warmer for a replacement twisting in the wind; your secretary of defense is underwriting your secretary of state; your CIA director won't talk to your chief of staff, and your secretary of HUD hasn't been seen in over three years. Who's in charge?
- Finally, throw a sneak punch at the point of Reagan's greatest vulnerability. Throw one entire 90-second answer to a monotone recital of the problem of petrodollars, Eurocurrency and the trade imbalance. If you can induce your opponent to doze off in front of 60 million people, you will win the debate and the election.

The New York Times.

LETTERS TO THE EDITOR

Perceptions of Reagan

For the first time in history it seems that America has a president who can do nothing right — according to Walter Mondale, anyway. Never mind that Ronald Reagan has cut inflation and unemployment and restored a sense of national pride.

STEVEN C. BRADLEY, Vicksy, France.

Bombers and Writers

Regarding the opinion column "Embassy: Protect It or Close It" (Sept. 28) by William Safire:

Mr. Safire wonders "who murdered 260 American diplomats and marines in the last 18 months?" He and other Zionist propagandists in the media have done more to harm

American interests in the Middle East than a dozen truck bombers.

ROBERT M. KELLEY, Dhahran, Saudi Arabia.

Not Brazilian Fiction

Richard Eder makes an odd mistake in his review (Sept. 14) of "The War of the End of the World" by Mario Vargas Llosa when he writes that its subject is a "fictional example." A rebellion at Caiaque, in Brazil's parched northeast, took place just before the turn of the century. It is the most celebrated popular revolt in Brazilian history.

The book's main character is surely the journalist Budeias da Cunha, who reported the rebellion for a Sao Paulo newspaper and was propelled to national fame. His book "Os Sertões" — translated into English in 1944 as "Rebellion in the Backlands" — is one of the greatest books to come out of Brazil and a pioneering work in the social sciences of the continent. Mr. Vargas Llosa's present book is based on "Os Sertões."

Last month the leader of the Camudos rebellion, Antonio Conselheiro, was acknowledged as a "true believer" — no longer a "religious fanatic" — by Brazil's Catholic Church.

HALLDOR SIGURDSSON, Copenhagen.

FROM OUR OCT. 6 PAGES, 75 AND 50 YEARS AGO

1909: Moroccan War Is Criticized

PARIS — Several straws show that the wind is blowing in England and France against Spain's Moroccan projects. The Daily News and the Aurora express editorial distrust of Spain (on Oct. 5). The Daily News, referring to the rumor that the region between Tetuan and Melilla is to be consolidated into a Spanish North African empire, declared: "No breach of the 1906 Algeiras Convention [in which France and Spain pledged to respect Morocco's independence] could be more flagrant."

The Aurora asks: "In order to punish the Moors, it is necessary to occupy Tetuan? It is no longer a question of punishment; it is the occupation of the country." Both countries realize that Spain's ultimate success may threaten England's control of the gateway to the Mediterranean, and France's dream of preponderance in North-West Africa.

1934: Fighting Breaks Out in Spain

MADRID — Civil war, anticipated as a consequence of the general strike begun at midnight in several parts of Spain (on Oct. 5), was admitted by Premier Alejandro Lerroux, who declared: "We are face to face with the general revolutionary outbreak, which differs from previous ones in that it is organized, planned, centralized and directed from high quarters." The most serious fighting is in the province of the Asturias where the Red elements — mostly miners — are in possession of several villages and small towns. The government expects at any moment the proclamation of the third Spanish Federal Republic from Barcelona, with Don Manuel Azaña, former premier and head of the Left Republicans, as first president. A revolutionary committee and a provisional government are reported to have been already constituted in Catalonia.

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Russian Meets the Press At U.S.-Style Briefings

Western Reporters Ask the Questions; They Don't Always Get the Answers.

By Seth Mydans
New York Times Service
MOSCOW — Nikita S. Khrushchev did it from time to time. Andrei A. Gromyko is a master of the press briefing, the face of the Soviet Union to the world.

On Thursday, Mr. Lomelko briefed foreign and Soviet reporters on a meeting by the Politburo that endorsed Mr. Gromyko's report on his talks with President Ronald Reagan. The briefing came several hours before an official communiqué was issued by the official Tass news agency.

In a country where official positions are expected to be expressed unanimously and where new policy directions are often revealed only through time textual analysis, the give-and-take of a news briefing can be treacherous ground for an official spokesman.

Mr. Lomelko said he was conscious of his responsibility. He said he did not come up with statements on his own but made it his job to thoroughly know the official positions on all questions.

The most dramatic shift during the first eight briefings has been Mr. Lomelko's emerging readiness to take questions outside the stated subject matter of a given session. But although he is accepting the questions, he has so far not given any information on the kinds of troublesome subjects Western reporters persist in asking about: How is the health of the Soviet leader, Konstantin U. Chernenko? What has become of Andrei D. Sakharov, the dissident physicist?

In a recent briefing, Mr. Lomelko duelled with Western reporters over questions that crossed the assigned boundaries. A Swedish reporter asked why Mr. Gromyko had agreed to meet with President Reagan although Moscow has made no secret of its opposition to his re-election. Mr. Lomelko dismissed that analysis as hearsay. "We have a principled position not to comment on rumors," he said.

When a British correspondent repeated the question, insisting that it involved not rumor but political analysis, Mr. Lomelko said: "I do not share your view. You say it is not rumor, but hard fact. I say it is conjecture and speculation and I do not find it useful to comment on conjecture and speculation."

At the close of the same briefing, when an American reporter shout-

ed a final question in English about the reported trial of Yelena G. Bonner, Mr. Sakharov's wife, Mr. Lomelko took a more aggressive line than he had in the past.

"I think translation into Russian will not be needed on this question," he said. "It does no good to raise your voice louder than mine. There is an order to these briefings. We must adhere to it and this means not interrupting each other. That in no way means I am avoiding your question."

And in a small parody of his own often-repeated statement of the Soviet position on relations with Washington, he said, "I am ready to answer any serious questions on the basis of mutual respect, equality and equal opportunity."

Exchanges like this have heightened the confidence that has



Vladimir B. Lomelko at a news briefing in Moscow.

been placed in Mr. Lomelko as a man capable of taking on all comers but still being guarded with his answers, not unlike press spokesmen in the West.

But they also point up the fact that though the format is more open, the tight rein kept by the Soviet Union on information has not been loosened. And that although Mr. Lomelko now provides a forum for questions from reporters, he is not authorized to say more now than has been said in the past.

The Foreign Ministry briefings have not been instituted to increase the flow of information. Rather, as Western analysts see it, they are an attempt to make the Russian propaganda apparatus competitive with those in the West and to give their policy pronouncements a human face.

Europe Concerned by Drugs in Food Chain

By Joseph Fitchett
International Herald Tribune
PARIS — Health officials in Europe, studying new U.S. medical research linking food-poisoning cases to antibiotics in livestock feed, say there are stronger regulations protecting European consumers than Americans against this threat.

But some consumer advocates say restrictions on antibiotics for animals are circumvented by a few European farmers, veterinarians and drug salesmen.

This black market, they contend, may explain a small rise in Western Europe of serious, sometimes fatal cases of salmonella food poisoning. Other specialists, however, blame recent outbreaks in Europe on poor hygiene.

An outbreak of salmonella, a disease related to typhoid, was recently traced by U.S. investigators to cattle that had been fed antibiotics.

In the case, the researchers said they had established the "missing link" in a causal chain long suspected by many scientists. The antibiotics, fed to animals to stimulate growth, nurture virulent microbes that can be passed on to people in food and cause human disease, which resists treatment by the same antibiotics.

Afraid of this kind of contamination, European Community governments a decade ago adopted a general prohibition against feeding farm animals the same antibiotic drugs prescribed for people.

Similar restrictions do not exist in the United States. Congress rejected legislation along the lines of the European regulations when they were proposed in 1977 by the Food and Drug Administration.

The bill was strongly opposed by the pharmaceutical industry, which sells nearly half its antibiotic pro-

duction for animal feed. Last year it sold \$270 million worth of antibiotics to U.S. farmers. Some of this production may have found its way onto the black market in Europe, according to a recent report by the European Bureau of Consumers' Unions, a consortium of consumer organizations.

Farm use of antibiotics, developed during World War II, grew greatly after the war as Western demand for meat began to rise.

Farmers started routinely feeding their livestock small doses of penicillin and tetracycline to stimulate their growth. These drugs kill some bacteria that stunt growth.

But other microbes seem to thrive on this diet of weak medication, scientists say, becoming more virulent and acquiring immunity to the antibiotic.

If passed on to humans, this new disease strain resists treatment by normal antibiotics. By the time the problem is diagnosed, it may be too late to save the victim's life.

In addition, scientists say, there is a risk of a "population explosion" in the drug-resistant strains of microbes, partially neutralizing the arsenal of antibiotics.

Fearing a risk to humans, Britain curbed the use of some antibiotics in animal feed in 1971. European Community countries banned penicillin and streptomycin as feed additives in 1973. Three years later, tetracycline was eliminated.

Currently, the EC allows seven antibiotics to be used in animal feed, according to Jean Thibault, chief administrator of the Agriculture Department for the European Community.

"But the drugs authorized for animal growth are different from those used for medical treatment, and even these drugs are only authorized as additives in small quan-

ties to minimize the risk of creating drug resistance," he said. For years, European and U.S. health officials have found salmonella becoming increasingly resistant to treatment by antibiotics.

Spokesmen for pharmaceutical industries and many experts contend that salmonella outbreaks are caused primarily by sloppy food handling.

Industry lobbyists maintain that there is no conclusive evidence linking antibiotics used to aid livestock growth with human disease or resistance to antibiotics.

But U.S. medical investigators at the Centers for Disease Control in Atlanta investigated a salmonella outbreak in four Midwestern states last year. In findings published last

month, they said they demonstrated how resistant bacteria got into the food supply from druged cattle and caused the human outbreak. Their work has spurred U.S. officials to push again for legislation similar to the restrictions in Europe.

European experts and consumer groups say that some European farmers appear to be breaking the law, creating a limited health hazard. This view was common among spokesmen contacted this week representing medical and consumer groups in Belgium, Britain, France, Italy, the Netherlands and West Germany.

Statistical evidence is skimpy. Most experts, however, agreed that salmonella cases are increasing.

Fredrick Eaton, Negotiator At 1960 Arms Talks, Dies

New York Times Service
NEW YORK — Fredrick McCurdy Eaton, 79, a Wall Street lawyer who took on various government assignments, died Wednesday at his home in Dublin, New Hampshire.

Mr. Eaton, who was the senior partner of Shearman & Sterling in Manhattan from 1964 until he retired in 1975, was the chief U.S. negotiator at the 10-nation East-West disarmament talks in Geneva in 1960.

He also served as counsel to the War Production Board in World War II, as special counsel to the secretary of the army during the espionage hearings conducted by Senator Joseph R. McCarthy and as head of an investigation of the

intelligence community during the Johnson administration.

Other Deaths: Charles J. Young, 84, a retired RCA Corp. scientist and inventor who led in the development of the wire and radio transmission of pictures and other images, Tuesday in Princeton, New Jersey.

Neil Hamilton, 85, a dashing leading man in silent films but better known to later generations as the silver-haired and slightly befuddled police commissioner on the "Batman" TV series, Sept. 24 in his Escondido, California, home.

Flees Dore Boylston, 89, author of the "Sue Barton" nurse series that has been popular for several generations of young readers, Sept. 30 in Trumbull, Connecticut.

U.S. Accuses Papandreu Of Using Soviet Line on KAL

The Associated Press
WASHINGTON — The United States has accused Andreas Papandreu, the Greek prime minister, of showing a "willful disregard for the facts" in his comments on the Soviet Union's shooting down of a South Korean airliner.

It was one of the sharpest statements the United States has ever directed at a NATO ally.

Alan D. Romberg, a State Department deputy spokesman, said Thursday that Mr. Papandreu, in accepting the Soviet explanation that the jetliner was on a Central Intelligence Agency spy mission, appeared to be engaging in a "blatant replay" of the Soviet Union's "cover story."

Calling Mr. Papandreu's statement "outrageous," Mr. Romberg said, "There is not the slightest evi-

dence for a claim of a spy mission and any such claim can only be termed irresponsible."

U.S. officials, speaking privately, said they were unaware of any U.S. action recently that might have provoked Mr. Papandreu's remarks.

Mr. Papandreu said Wednesday, "The world is now convinced the jumbo jet was on a spy mission for the CIA and that it really did violate Soviet airspace for intelligence-gathering purposes."

He did not cite any specific evidence that the plane was on a spy mission, but Dimitri Maroudas, a government spokesman, said Thursday that the prime minister's statement was made on the basis of reports in the U.S. and British press. He added that Mr. Papandreu was not condoning the Soviet action.

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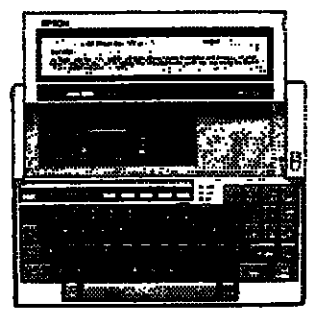
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ARTS / LEISURE

Furniture of the '50s: An Era Without a Label or an Overview

International Herald Tribune

PARIS — Just where can the limit be drawn between "our time" and the past?

In the past 12 months attempts have been made by auction houses to promote the entire range of decorative art produced in the 1950s. Observers who were watching the market in the late 1960s are familiar with the process. In those days, the art of the '50s, packaged under the label Art Déco, acquired the

status of collectible antiques. It took about five years. The final consecration was given at Drouot

SOURIN MELIKIAN

in 1972, when the furniture and objets d'art commissioned in the '50s by the couturier Jacques Doucet were auctioned by Lucien Soanet with the assistance of the expert Félix Marcihac. The Metropolitan Museum of Art in

New York acquired a stool by Pierre Legrain, and people with avant-garde taste from the United States and Europe competed for the finest items.

Things might be harder with the art of the '50s. A label has yet to be found: There was no event like the memorable international Exposition des Arts Décoratifs organized in 1925 by the Paris Musée des Arts Décoratifs from which the name Art Déco is derived.

Moreover, art of the '50s was

created at a time when a rift existed between the work of great designers and mass production. Documentation on the great designers, scattered all over the world, has yet to be sorted out. For the moment, very few have a bird's-eye view of the period.

It is too soon to tell the difference between what was a passing extravagance and a bold, lasting creation. There is the beginning of a consensus among Art Déco experts and private buyers that the

Italian Carlo Molino was a major contributor to Italian furniture design around 1950. But it is rare to hear concerning views as to what a great piece by Molino is as opposed to a minor one.

The trickiest problem concerns the definition of authenticity. Designers took no part in the production of their furniture. Sotheby's may be right in claiming that a pair of chairs "by Carlo Molino, 1948" with upholstered seats and backs and bent legs painted black, is of the period on the strength of a photograph of the model published in a 1948 issue of Domus. But if the chairs to be sold in Montecarlo on Sunday should go up to 60,000 to 80,000 francs (\$6,400 to \$8,600), the estimate in the catalog, there is little doubt that similar chairs would surface in future sales. Reproducing such models is child's play and many companies hold copyrights for models devised by their designers in the '50s.

No wonder that so far the furniture of the '50s has been selling in the auction room with varying success. Past sales have largely consisted of pieces sent in by dealers setting high reserves and requesting auctioneers to quote "estimates" that reflect their wishes rather than reality. This has led to a high buy-in rate, and it is impossible to tell how much furniture of the '50s stands a real chance of taking off.

A different case is provided by glassware from Italy, where the traditional technique of blowing was used. Some of the sophisticated pieces designed by artists such as Fulvio Bianconi for the old Venini firm established at Murano, outside Venice, are difficult to imitate.

The first sale with a significant amount of high quality designer glass was staged at Drouot in December 1983 by Axel de Heeckeren with the assistance of Marcihac. It was not a great success. Perhaps the finest piece of all, a squat bottle of irregular shape in shades of deep green and aubergine signed by Bianconi and dated 1949 failed to sell at 15,000 francs.

In May, two more auctions took place within four days, one organized at Versailles by the Perrin-Royère-Lajoussie group, the other

at Drouot by de Heeckeren, with Marcihac the expert in both cases. At these glass sales better. In Versailles, a brownish cylindrical beaker with a cracked ivory band inscribed "Venini Murano" was knocked down at 11,500 francs. In Paris a vase of amethyst and puce hue by Flavio Poli went to 33,000 francs. While the record was greatly improved, some pieces were nevertheless bought in.

This week at Drouot, Christiane Pescheteau-Badin conducted an unusual sale assisted by the expert Jean Pierre Camard. For the first time a quantity of glassware of the 1950s was sent in for auction not as an attempt to sound the market but with the genuine intention of selling — the 90 pieces reportedly came from the stock of a Paris interior decorator who had bought them directly from their Italian manufacturers in the 1950s.

Prices varied erratically. Among the less ambitious wares, little difference was made between hangovers of an earlier period and the pieces reflecting the spirit of the fifties. A large dish of ruby red hue, its flat base and broad everted rim designed by Flavio Poli for the Seguso workshop continued the tradition of the 1950s. It was knocked down at 1,500 francs, while a thoroughly modern vase with round body, flattened sides and broad short neck in turquoise, natural glass and cobalt blue in vertical bands went up to 1,800 francs.

The most interesting object by far, a tall flask rising from a square base with rounded shoulders and short cylindrical neck, was decorated with an abstract pattern of rounded squares reminding one of Roger Bissière and Mark Tobey. The leading Paris connoisseur and dealer in glass of the '50s, Clara Scremin, paid 13,000 francs for it, about half what it is now worth on the North Italian market.

Tuesday's sale can be considered the first real test in the field, with no dealer in the background running up his wares. It confirms the existence of a strong potential demand from genuine collectors, mostly from the younger generation at half the financial level at which auction rooms would like to see it stabilize.

DOONESBURY



Armando Morales: A Sandinist Painter-Diplomat

By John G. H. Oakes

International Herald Tribune

PARIS — A Nicaraguan representative to UNESCO stood with his nose practically touching the paint of a large work he was finishing.

"You have to get close to the painting, to feel the physical presence of the paint," explained Armando Morales, painter and, at least nominally, a diplomat. A confirmed Sandinista — "I am a Sandinista in my heart, even if I am not officially registered as a member of the party" — Morales is achieving more recognition as a painter, as evidenced by his forthcoming one-man show at this fall's FIAC art fair at the Grand Palais Oct. 20-28, where he will represent the Galerie Claude Bernard.

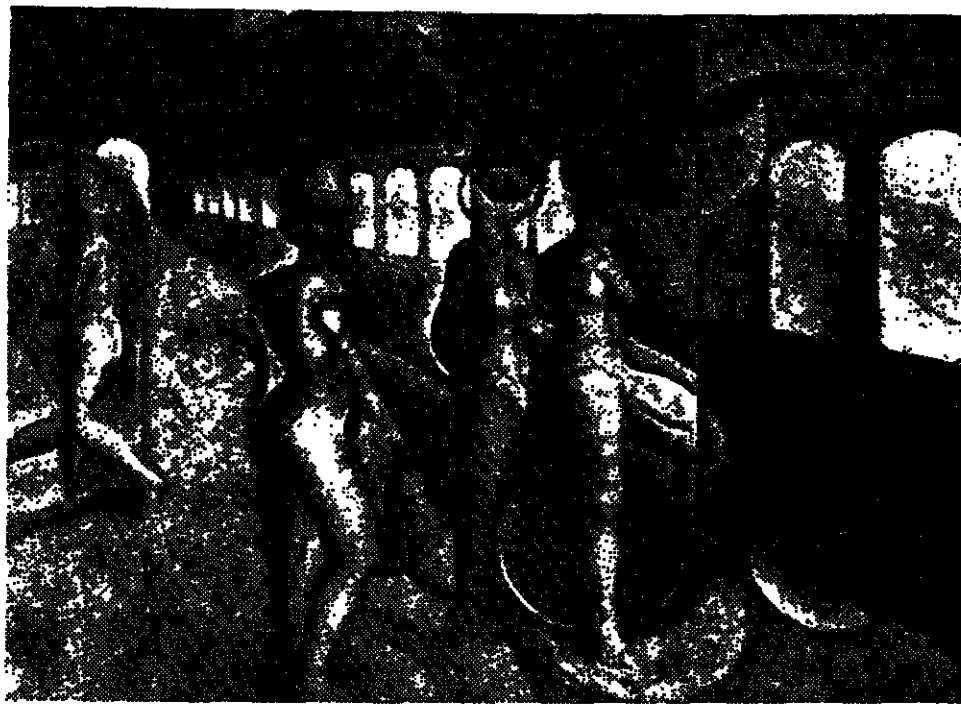
Alongside his largely symbolic role as a representative to the United Nations Educational, Scientific and Cultural Organization, Morales, 57, fills in for the ambassador when he is absent, but confesses to have little interest in diplomatic affairs.

His concern for Nicaragua, past and present, frequently makes its way into his art. In the 1960s, he did a series of 13 "guerrilleros muertos," guerrilla fighters killed in the struggle to overthrow the dictatorship of Anastasio Somoza. Now, he has started drawing on "themes from the saga of the Nicaraguan revolution."

"For an artist, it provides a rich code of events," Morales said. "And for me, it's very important to make a public statement, to try to do something for Nicaragua, without being dogmatic about it."

One painting in this category is "Les Demoiselles de Puerto Cabezas," a large work portraying a legendary event in Nicaraguan history. Although the title is an obvious parody of Picasso's 1906 work "Les Femmes d'Alger," the patriotic motive behind the painting is sincere.

In 1926, a small shipment of rifles to arm men following San-



"Despedida" (Farewell), done by Armando Morales in 1983.

dino arrived in Puerto Cabezas, Morales recounted. "The U.S. Navy intervened, insisting the weapons be dumped in the bay. Later, Sandino arrived, and persuaded the prostitutes — I don't know why he had to go to the prostitutes, but that's the legend — of the town to help him retrieve the rifles at low tide."

The Morales version of the story is done in rich yellows and browns. A hand holds a blazing torch over the bent backs of the women stooping to pick up rifles. Typically of Morales's work, faces are hard to make out and the scene is veiled in darkness, giving the picture a romantic, mythic tone.

In the same vein is a group portrait of Sandino and a half dozen of his men, reminiscent of a 19th-century photograph of outlaws in the American West. In the center of the picture, Sandino, short and powerful, looks directly at the viewer. His face is partially obscured by a wide-brim hat. A shocking pink background — "borrowed from an ice-cream parlor I remember as a child" — adds to the drama of the painting.

The scene is taken directly from Morales's childhood. "Some time in 1934, Sandino had come into

Managua to negotiate with the government. A local shirt company asked him and a few of his men to pose for a photograph, wearing the company's shirts. This was directly across the street from my father's hardware store. My father called me to come look at the guerrilleros, and I looked out and saw them posing for the photograph."

Some time afterward — "it might have been the same afternoon, since he was killed in 1934" — Sandino was shot in the street by police forces led by Somoza, the future dictator of the country.

Morales cites Goya and Picasso, both of whom were known as being politically concerned, when asked to name artists he admires. But Morales also names Giorgio de Chirico, the leading proponent of "metaphysical" painting, as a strong influence.

That influence is clear in the numerous paintings that show no evident political leaning. In these surreal works, dark, half-observed figures confront each other in the shadows of railway stations and mysterious buildings.

Morales plays with and blends perspective as he does colors. "I have always had a certain perverse

satisfaction in creating a space and then canceling it" by means of a contradicting plane, he said. "I like twisting reality."

An abstract painter for many years, Morales later turned to figurative art, retaining the strict control over his materials that he had learned through his abstract work.

But for the moment — although he first sketches a painting, photographs the sketch and places a grid over the rearranged photograph to the sketch before he starts work on a final version — that absolute control eludes him. Perhaps, he admitted, he tries too hard. In "Les Demoiselles," he has let himself become more wild and less controlled than ever before, closer to Goya than to Picasso.

Once Morales has completed a painting, it loses much of its attraction for him. It is a beautiful corpse, nothing more. "It's signed and finished and dead. For me, the interest in my work is not only painting by painting, but inch by inch of each painting."

Some artists can't handle success, but Morales seems to dread it. "To see one painting in an exhibition is bad enough, and to have 20 paintings, 30 paintings in a room is ridiculous."

Trudeau's Lyrics and Cast Enliven 'Rap Master Ronnie'

By Frank Rich

New York Times Service

NEW YORK — If Ronald Reagan prayed that one of his wisest critics, Garry Trudeau, was going to sit out the election campaign, those hopes have been dashed.

Trudeau has returned from a sabbatical to bring "Doonesbury" back to the funny pages and to help launch "Rap Master Ronnie," a "parisian revue" at the Top of the Gate theater. A collaboration between Trudeau and the composer

Elizabeth Swados, "Rap Master Ronnie" consists of 16 songs that attack the administration with a vengeance.

The show, which runs about an hour, is a less ambitious project than the Trudeau-Swados venture of last season, the Broadway musical version of "Doonesbury." The strengths of "Rap Master Ronnie," however, are exactly those of its predecessor: Trudeau's ingenious lyrics, the bristling wisecracks and a sparkling cast.

This time those assets are liberated from the burden of a farcical book, but they still must contend with Swados's sometimes jolly but more often bland pastiche music.

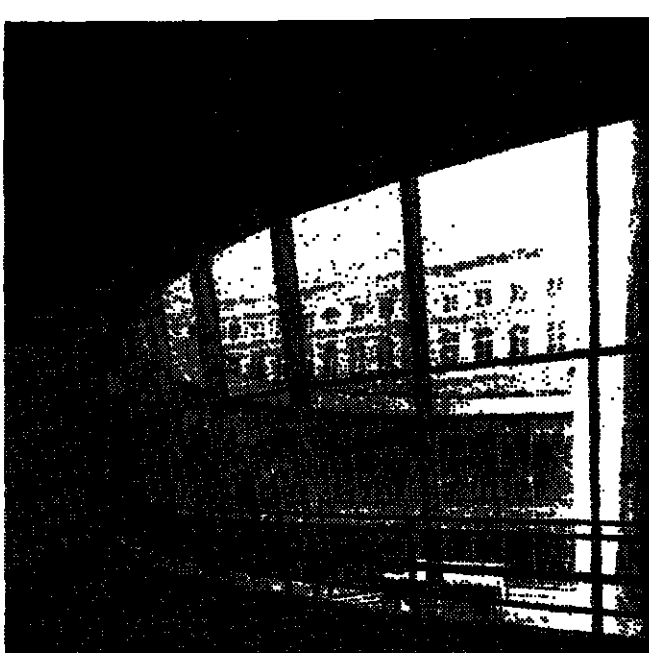
The evening starts on a high note with the title song. In a campaign commercial, the president pleads for minority votes by rapping, "I have an open mind on civil rights. My youngest son grew up in tight jeans." This is soon followed by a cowboy serenade in which White House aides describe their boss's work habits — "From 9 to 12 he's working like a dog."

Trudeau's Reagan — impersonated with facial ticks and soothing voice by Keith Beane — is indeed a "great communicator," even if he must always be used by index cards or his first lady. At one point he likens security failures in Beirut not only to delays in remodeling a kitchen but to the redecoration of the White House: "The plumbers kept Nancy waiting twice!"

But "Rap Master Ronnie" doesn't merely mock the president's style, "evil empire" rhetoric and factual misstatements. Trudeau and Swados wish to make a statement of how, in their view, the administration's policies have corroded the nation. This is an ambitious task and the writing is not always up to it.

Though the lesser material buckles the revue's second half, Cayman's Patten's staging and cast remain sprightly. Catherine Cox is amusing as a docile wife asking, "Must I have it all?" She also does a good-natured Nancy Reagan imitation. Ernestine Jackson and Mel Johnson Jr. dance stylishly to a wicked calypso ditty about Grenada.

Museum of Modern Art Set to Open in Brussels



A semicircle of glass panels provides light for the art.

By Rona Dobson

International Herald Tribune

BRUSSELS — Brussels is about to step into the 20th century in the art world. The Museum of Modern Art has reached completion, give or take a few trailing wires, misplaced sculptures, muddy patches on the carpeting and flickers in the spotlights, all of which should disappear in time for its inauguration by King Baudouin and Queen Fabiola Oct. 25.

Phil Mertens, the curator of modern art, has tramped many kilometers to cover her domain and keep a keen eye on the transformation from building site to hall of culture. "I even sleep here," she said. "There's still so much to do."

Work began in 1978, and passers-by have watched the upheavals over the years, wondering what was going on. They still wonder, since little is visible at surface level. Most of the museum is underground, burrowing eight levels into the earth in the courtyard of the Old Masters Museum, where a handy hole already existed.

For the sake of economy, the architect, Roger Bastin, was asked to discard his plans for a museum that would rise three stories above ground, harmonizing with the 18th-century surroundings, and instead to plunge the whole structure below ground.

Bulldozers moved in to enlarge the hole, houses fringing the courtyard and street beyond were gutted to leave only facades awaiting new interiors for integration with the underground museum as entrances, exhibition areas and offices.

As the project moved toward completion, several of the disemboweled houses, hard fought for by environmentalists and reluctantly accepted for rehabilitation by the Ministry of Works, fell down, conveniently clearing a scenic gap looking out to the museum site from the steeply curving street alongside.

The architect has managed to protect his building from claustrophobia, despite its downward spiral into the earth, by inserting a sweeping semicircle of glass panels from ground level to the fourth floor, and this inset provides both a visible link with the outside and a fan

of daylight for the works within. Closing the glass well is a straight, deep wall built with blue-toned granite from the valley of the Meuse in Belgium. Within this enclosure a courtyard paved in the same blue-tinted stone contains an ornamental pool and fountain. A few of Niki de Saint Phalle's floating Nanas would add a genial touch, but funds are unlikely to run to such frivolous extras.

"That's our next battle, trying for a bigger budget to buy new art now that we have a place to put it," Mertens said.

Inside the museum at entrance level, cool, pale marble prevails to provide a foil for the modern sculpture disposed about the halls; a white marble staircase leads down to the depths below.

The main entrance is through a handsome old house fronting on the Place Royale, a wide square that forms the core of the elegant 18th-century "Austrian Quarter" designed by Charles of Lorraine, Belgium's governor under Empress Maria Theresa. During construction, this facade too remained propped in place while its interior was scooped out and rebuilt; the front wall with nothing behind it, blank windows reflecting sky and clouds, empty doorways leading nowhere, offered a touch of Belgian surrealism that would have delighted René Magritte.

Work within this modern Palace of Futo ranges from James Ensor to today's hopefuls, through Flemish Expressionism, Abstract Expressionism, Surrealism and the astonishing array of Constructivist paintings and sculpture bearing witness to Belgian artists' advanced outlook in art through the 1920s and '30s.

Contemporary art has been grouped way down on the eighth level, but roomy elevators, built to transport art works as well as visitors, serve all floors. Nearly 1,000 of the 3,000 art works in the state collection have emerged from storage to cloak the walls and enliven the halls. But it isn't an overly chauvinist display; art from other countries is given space.

The most dramatic among the foreign works are one series of the Saul Steinberg panels designed for the U.S. Pavilion at the Brussels World Fair in 1958, all of which remained in Belgium after the fair closed. Steinberg had crossed the Atlantic at the time to install the panels and to work on them on the spot, producing eight series composed of separate segments of enormous floor-to-ceiling frescoes depicting "The Americans"; laid out to end, they would stretch for 84 meters (275 feet). Placed as murals, even in the imposing ground level hall of the new museum, they caused a headache or two for Pierre Baudouin, in charge of graphic art and sculpture.

"We've set up only one series called 'California,' with 24 panels," he said. "It wasn't too easy to fit them in though we thought we had space for anything now." The others will remain in storage. Steinberg turned 70 on June 15 and the museum staff hopes he might celebrate his birthday by attending the opening.

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SOUTH KOREA

A SPECIAL ECONOMIC REPORT

OCTOBER 6-7, 1984

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Chun's Japan Visit:
Diplomatic Victory
After the Setbacks

THE FIRST state visit by a Korean head of state to Japan in September was more than just a diplomatic victory for President Chun Doo Hwan and his host, Prime Minister Yasuhiro Nakasone.

It was also an important step in recovering the international political offensive for a country that only a year ago sustained two serious and successive blows to national morale: the downing of a Korean Air Lines 747 by the Soviet Union on September 1, 1983, and the assassination attempt by North Koreans on October 9 in Rangoon against members of the South Korean cabinet.

For President Chun, widespread international support for this "second rapprochement" between Japan and Korea, (the two countries normalized relations only in 1965) strengthened his military-backed government's claim to legitimacy.

Following the assassination of President Park Chung-hee in 1979, Mr. Chun nearly circumvented the political factions squabbling among themselves to stage a military coup and assume the presidency.

Now under his own electoral reforms, his constitutionally prescribed once-only term is scheduled to end in 1988, shortly before the Olympic Games are held in Seoul.

Until recently, rivals within the opposition have mostly bickered over and attacked President Chun's right to leadership. It is a sign of some success for the president in guiding the country safely through the international recession as well as recent political crises that now these same opposition leaders have formed a coalition — the Council for the Promotion of Democracy. There have been suggestions that this new council would discuss with President Chun the gradual process of democratization that he claims is planned for the country.

Although authoritarian controls in South Korea remain in place, Mr. Chun has over the past year eased the political climate a little by allowing more than 1,300 students to return to their campuses and by removing all but 99 politicians from the government's blacklist. Even South Korea's most famous political exile, Kim Dae Jung, said recently that he plans to return to South Korea before the end of the year to resume political life and work for democracy.

Observers say that Mr. Chun's efforts to restore some controlled political activity to the country is not only piecemeal — it is also partial. His critics say he is still filtering out politicians who do not agree that threats from North Korea are a good reason for South Korea to forgo some of its democratic institutions.

Traditionally, the division of the country and its state of military alertness against the Communist North has dominated public life.

The capital city, Seoul, is only 35 miles from the heavily guarded border with the North. The sonic booms of air force test runs regularly punctuate the business day. The general atmosphere of sobriety is enhanced by a stolid North Asian architectural style and a culture so Confucian and conservative that businessmen polish only two fingertips on each hand, which can be quickly hidden in the palm in case a male colleague may take offense.

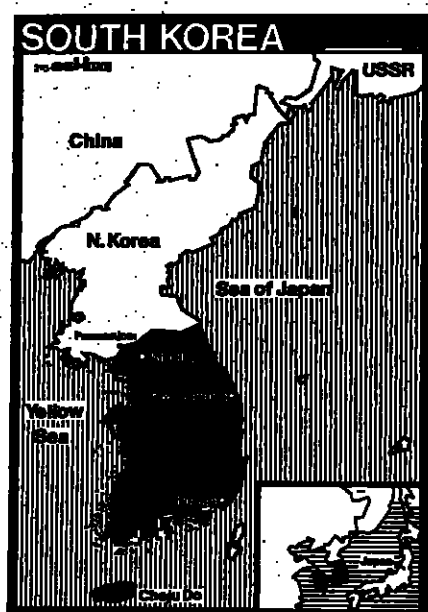
On a secluded hill in the middle of the city, stands the National Unification Board, set up to liaise with the North Koreans if talks for reunification of the country are ever resumed. Contacts between the two sides have been made in fits and starts, breaking down most recently after

(Continued on Next Page)



An electronics factory in South Korea.

BASIC DATA



AREA: 98,992 square kilometers (38,221 square miles).

POPULATION (November 1, 1980): 37,449,000. Major cities: Seoul, the capital (8,367,756); Pusan (3,160,276); Taegu (1,607,458); Incho'n (1,084,730).

INDUSTRY AND TRADE: Since 1962 a series of five-year plans has resulted in real economic growth averaging 10 percent a year until 1979. In 1980 the annual per-capita gross national product was \$1,522. Imports in 1980: \$22.160 billion; exports in 1980: \$17.505 billion.

TOURISM: In 1981, there were 1,093,214 tourists, who spent the equivalent of \$447.64 million.

CURRENCY: Notes are issued by the Bank of Korea in denominations of 10,000, 5,000 and 1,000 won, and coins in denominations of 500, 100, 50, 10, 5 and 1 won. \$1 = 810 won.

Export-Led Economy
Moves to World Stage

By Dinah Lee

SOUTH KOREA'S reputation for high productivity takes on new meaning when business contacts are available for appointments from 8:30 in the morning to well after 6 o'clock at night.

The government of President Chun Doo Hwan is confident that this prodigious work ethic will continue, fueled by a national sense of Confucian duty, as the export-led economy ascends out of heavy industry and into higher value-added exports.

Apparently, this confidence is shared by international bankers. Korea now ranks fourth in the list of world borrowers — after Argentina, Brazil and Mexico — but South Koreans thoroughly resent any comparisons in terms of credit ratings with its Latin peers.

The chairman of the Daewoo group of companies, Kim Woo-Chong, defends his own company's high level of borrowing. He said that the Daewoo group needs \$200 million a year for new investments. Export sales of Daewoo Corp., the group's trading house, is expected to reach \$3 billion this year. "We are borrowing according to our capacity," he said. "We get first-class bank guarantees and our debt is offset."

South Korea has now completed one year of its revised 1982-1986 five-year economic plan, announced late last year. While maintaining a goal of 7.5 percent annual real growth, the revised plan envisages less dependence on foreign borrowing for the five-year period, from an original estimate of \$64.5 billion down to \$47.4 billion by 1986.

The new plan also outlines the decrease in the economy's dependence on foreign trade, lowering the projection for domestic merchandise exports from \$53 billion to \$55.7 billion by 1986. This is because planners of the revised program, among them the late presidential adviser on economic affairs, Kim Jae-Il, who was killed in the Rangoon bombing of 17 cabinet members, feared the effects of growing protectionism and the possibility of continuing recession in important markets and they decided that the expansion of the domestic market should replace exports as the engine of growth in coming years.

Although the threat of recession in markets like the United States has subsided somewhat in 1984, the Koreans' long-term priorities remain the same.

The country is, therefore, aiming for fundamental and difficult changes in the economic structure over the next two years. Since his accession to power through a military coup in early 1980, President Chun has revised gross national product from its low in 1980 of a contraction in growth by 6.2 percent to last year's more impressive 9.3 percent. However, South Korea's rapid growth has been costly in an important sense.

The imbalance of the economy's sectors and distribution of economic power is now acute.

In the early 1970s, the government encouraged the development of heavy industry, including a native defense industry, through large foreign borrowings and the allocation of credit and resources to preferred companies concentrating on certain exporting industries. The government's sponsorship of heavy manufacturing moved the country out of its agricultural and textile phase into shipbuilding, machinery, steel and coal, electronics and construction.

The most rapidly growing sectors have all been in these areas. Korea is now second only to Japan in its share of world production of ships and is among the world's top 10 producers of electrical goods. Exports of Korean cars began in the late 1970s.

But not all of Korea's economists see this as untarnished success. The director general of the Bureau of Economic Planning in the influential Economic Planning Board, Kim Dai-Young, said: "Inflation has distorted our economy because it not only weakened our price competitiveness, but protectionism of our economy as well as inflation guaranteed domestic profits but made us lazy in the 1970s. Also our timing with heavy industry was bad. By the time we had finished building our manufacturing capacity, there was no market because of world recession. We were inefficient because we had no proper technology to support ourselves."

In this setting, a few companies concentrating on the target industries grew fat, resulting in unhealthy centralization and the domination by about 50 business groups of the entire national economy. About half a dozen of these conglomerates, known as *chaebols*, call most of the shots — monopolizing available credit and controlling domestic business. The names Daewoo, Hyundai, Samsung, Lucky Gold Star, Kookje, Saehan, Daewon and Dong Ah are more than just companies in Korea. To South Koreans, these *chaebols* are like enormous families with a finger in every aspect of economic life in the country.

The president's revised five-year plan promises liberalization of the domestic market to overseas competition, and a further liberalization of the financial sector. Commercial banks have already been completely de-nationalized. The government is now working to toughen monetary policy with more capital directed to small and medium-sized companies and the raising of interest rates. An official at the Bank of Korea said: "If we raise interest rates then the financial situation of some large corporations would be worsened. We are very cautious as we consider if the interest rates should be liberalized or not. We first

(Continued on Next Page)

Liberalization of Financial System Will Open the Economy to More Competition

By Laxmi Nakarmi

IN A NEW BID to open up the economy, the South Korean government is taking steps to liberalize the tightly controlled and restricted financial market. Along with this move came an opportunity for both local and foreign banks to compete in one of the world's fastest growing economies.

Two important aspects of this policy of liberalization are the institution of a mature autonomous system of management for domestic banks and gradual easing of all discriminatory restrictions imposed on foreign banks. The non-bank finance sector is being developed with the gradual opening of the stock market to foreign investors. Interest rates, which are still controlled by the government, are next on the list of liberalization policies.

One fundamental change in the new "liberalized market" is likely to be the introduction of an element of competition. During Korea's fast development, demand always outran the supply of funds. Instead of active marketing, domestic banks were content with their regular business, effectively precluding any innovative approach or even the normally mandatory credit analysis of borrower. The foreign banks, restricted to operating within a narrow range of business, were active in dealing mainly with a few large corporate groups, or *chaebols*. In the process, small and medium-sized companies found any source of funds effectively shut. The result was that the banking market grew in size but not in quality.

The lack of quality was apparent in the news

of bank frauds and embezzlement that appeared in the newspapers almost daily. Three large-scale frauds involving leading city banks and hundreds of millions of dollars and dozens of other petty embezzlements brought major institutional weaknesses of the country's banking sector to light. Economists at the Korea Development Institute (KDI), a government-funded but autonomous think tank, officials at the Ministry of Finance and bankers all agree that the weaknesses stemmed from government intervention in the banking industry during the 1960s and 1970s.

In a study, the Ministry of Finance listed several other factors contributing to the poor shape of the industry: excess demand for loans, banking technology that is lagging behind the pace of the country's economic development, insufficient supervisory mechanism, low staff morale and higher inflationary expectations.

Under the present liberalization policy, the government has taken several steps to strengthen the banking industry. Choi Chang-Nak, the American-educated governor of the Bank of Korea, recently said in a magazine interview that shortening of the transition to the autonomous system of management is the only way to improve the banking system. The government, which had majority shares in all five city banks, transferred its interest to private shareholders. But this transition lacked substance. Mr. Choi said that institutional devices are needed to prevent the monopolization of bank financing by a minority in light of the fact that major shareholders in the banks are mostly large borrowers.

There is a legal provision to reduce the majority shareholders' influence in the management but there is a bank supervisory agency whose full-time job is just to keep an eye on the management of banks. This has led to regular intervention by the government in the management of the banks. The recent example: the government instructed all banks to freeze all lending to big corporate groups.

Economists like Kim Jung-Ung of KDI agree with foreign bankers that interest liberalization is crucial to the Korean economy. But nobody wants a sudden and shocking announcement on the decontrol of interest rates. Lee Hyung-Koo, the assistant minister of finance, said that the liberalization steps will be taken on a gradual basis, stretching the schedule beyond 1988, something of a target base in Korea due to the Olympic Games to be held in Seoul that year. As a step in this direction, the government allowed banks to quote their own rate between a narrow band of 10 and 10.5 percent in January this year. Furthermore, the ministry also allowed banks to quote a fee rate anywhere below a fixed maximum rate. All these ceilings will eventually disappear, setting the interest rate free. (This is an often quoted official line. The question to be asked is when.)

The liberalization process also affects the foreign banks. After a combination of persuasion and complaints, the Ministry of Finance finally relaxed all "discriminatory" restrictions imposed on foreign banks. A broad policy measure announced in April this year promised gradual removal of all barriers hitherto imposed. The foreign banks will receive a "true

national treatment." According to the ministry, the new policy clears the way for participation by foreign banks in a Korean clearing house and a national association of banks. "This," said a ministry statement noted, "will put them [foreign banks] in a position to protect themselves from any discrimination."

Foreign banks were more interested in the central bank's rediscout window for export financing, which will be partly available in 1985, and from 1986 they will be treated the same as domestic banks. Another point of contention between the ministry and foreign banks was the definition of capital. Until now, the equity capital of a foreign bank in Korea is presumed to be the total operating fund of the branch, and this, according to the Foreign Bankers' Association, acts as a constraint determining the credit ceiling of a single borrower. In Korea, the government usually fixes the credit ceiling according to the size of a bank's capital. Under the new policy, the size of the presumptive capital will be increased and foreign banks should be less constrained.

Contrary to general belief that the government acted under pressure from the United States, Seoul-based foreign bankers, including Thomas Charters of Citibank and Roger Griffin of Chase Manhattan, called the policy a part of the Korean government's liberalization plan. A bill proposed in the U.S. Senate requires the U.S. government to take into consideration the treatment received by American banks in foreign countries before granting foreign banks permission to operate in the United States. U.S. banks and the American Chamber of Com-

merce were most vocal in calling for "fair treatment."

Mr. Griffin agreed with Mr. Lee of the Ministry of Finance that the present policy is definitely a part of the government's financial liberalization plan. Under the plan, foreign banks will have added responsibility. Although they would not be a part of the government's preferential policy lending, under which the government asks domestic banks to lend to a certain sector or certain company, foreign banks will be obliged to lend to small and medium-sized companies. Foreign banks will initially be required to lend 10 percent of their lending funds but may eventually have to be at par with domestic banks, which are required to lend as much as 35 percent of the total lending funds.

After the present wave of liberalization subsides, one issue may crop up. Lobbyists for domestic banks say that by definition of national treatment, foreign banks, like their Korean counterparts, should be required to become a part of the selective credit policy. "If the foreign banks were not required to participate in this time-honored system in Korea, they should not also be given full access to the rediscout window; otherwise, the national treatment for foreign banks would translate into a discriminatory treatment for domestic banks," one banker said.

Under the new policy, the future of swap arrangements are not clear. Under a swap arrangement, foreign banks sell foreign currency to a central bank under a repurchase agreement. This swap transaction is free of any exchange risk, and a 1-percent margin is guaranteed when these funds are loaned out to domestic banks.

The swap is necessary because a foreign bank's ability to raise funds locally is limited. In a magazine interview, the minister of finance, Kim Mahn-Je, an American-trained economist and campaigner for liberalization, said: "As foreign banks are being given national treatment, exclusive privileges (swap) that they have enjoyed will be gradually reduced."

But even if the government wants to eliminate this privilege, it could not. The swapped amount as of December 1983 has risen to \$1.7 billion. If swap privileges are eliminated, another round of protest may start. The foreign banks are allowed to have a maximum of two branches and, as a result, their ability to raise funds is very limited.

One of the arguments made by foreign banks while asking for more areas for business was that they are the ones who helped raise Korea's \$41.1 billion in foreign debt. The foreign banks' role will be crucial in the next several years, as Korea will be borrowing another \$6 billion a year in roll-over and new financing.

Even though some of the world's money-center banks are holding their exposure to Korea steady or cutting back, Korea will remain a sought-after market. Not only are Korea's debt management and debt service exemplary, Korea's economy is growing at a 7-percent real growth rate, and exports and overseas construction will make Korea a \$90-billion market by 1988; although foreign bankers claim that on the basis of return on assets, (an indicator of profitability), Korea is less attractive. Nevertheless, the number of foreign bank branches in Korea is fast approaching that of Japan.

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A SPECIAL REPORT ON SOUTH KOREA

Chun's Japan Visit: A Victory Of Diplomacy After Setbacks

(Continued From Previous Page)

three rounds of athletic talks on forming a joint sports team for the 1984 Olympics in Los Angeles, as well as the Asian Games in 1986 and the Seoul Olympics in 1988.

The sports talks recently broke down amid accusations from North Korea that Seoul's representatives introduced political issues into the talks.

According to the director general of the Office of North-South Dialogue, Song Han-Ro, the North Korean participation in the Soviet boycott of the Los Angeles games simply made the formation of a sports team possible.

A call from President Chun in late August for sports talks to resume in time for both teams to compete under one flag in the coming Asian games drew a rejection from North Korea. According to Mr. Song, the details of how a team might be formed were never broached in the first three sessions, and observers present for the talks said that both sides seemed more intent on stating political positions than in negotiating.

A sense of suspicion pervades even the most measured conversations with South Koreans about their Northern cousins.

South Koreans argue that everything from border provocations through the years to the attempt in Rangoon to wipe out their government make any peace overtures from Pyongyang, the northern cap-

ital, hardly credible. It was in this cynical light that they viewed North Korea's appeal last January for a three-party peace conference, as hand-delivered by the visiting Chinese Prime Minister, Zhao Ziyang, to President Ronald Reagan.

In the message, the North Korean president, Kim Il Sung, proposed that Washington take part in reunification talks between North and South Korea — the first time the Pyongyang government has ever offered to include the South Koreans in such discussions on an equal footing.

The offer appears to have made no progress to date, and is viewed by South Koreans as a fleeting gesture from the North to offset worldwide revulsion at the Rangoon massacre.

The South Koreans prefer the idea of direct bilateral talks between the North and the South, to which other parties like China or the U.S. might be invited in view of their role in the 1953 ceasefire agreement, which ended the three-year Korean War but continued the division of the country.

Now, according to Mr. Song, both Washington and Seoul feel that the presence of China in some as of yet undecided capacity would be the only sure guarantee of negotiated promises from Pyongyang.

He said that "although North Korea has some diplomatic ties with both China and the Soviet

Union, North Korea is tilting more toward China at the moment." He also credited China with stopping North Korea from further provocation or violence against the South since last year's disasters.

But both Mr. Song and the assistant foreign minister, Han Woo-Suk, describe China as reluctant to meddle too far in proposed talks at a time when China is seeking military technology from the United States, or might risk pushing North Korea too far toward the Soviet camp.

During talks in Peking between North Korean and Washington representatives, it appeared that Pyongyang watered down demands for U.S. troop withdrawals from the South as a prerequisite for tripartite talks.

But the South Koreans are less than impressed.

Mr. Han said: "There is some trickery behind every peace offensive from the North. When negotiations started in the early 1970s they started digging tunnels, and when they formally made a proposal for talks in January this year, the United States, Japan and others all commented that it was just a propaganda gesture after Rangoon."

Despite Rangoon, the Japanese seek greater trade relations with the North Koreans. On the other side, China, already enjoying an unofficial trade with the South Koreans, also has an interest in reducing North-South tension. During Mr.

Chun's visit to Tokyo, the South Korean president demonstrated how strongly Seoul objects to any closer ties between Tokyo and Pyongyang. But Prime Minister Nakasone appeared to stand some ground against Mr. Chun's pleas not to increase contact with the Communists, warning that the Kim regime should not be driven further into isolation.

The latest development is the North Koreans' offer of aid and assistance to the South's victims of recent flooding. Although the South Koreans pointed out that most of the South's flood damage

had already been repaired, they clearly had no choice but to accept the offer rather than appear as political chumps. The medicine, rice, cloth and cement delivered on September 30 was the first exchange of aid between the two governments since the Korean War. Diplomats saw this move as an indication that the North is softening its stance toward the South.

Against this background, South Korea might have to give some ground itself. Secretly, it seems that the South Koreans also feel that, even if they

trim away aging or inefficient operations, Daewoo's chairman, Mr. Kim, said that the speed of Korea's development has been too rapid to give it time to dispose of existing industries to make way for new ones. "There hasn't been much time to acquire capital and nobody can buy these companies — like our leather manufacturing — out," he said. "The small and medium companies have no money to take it over."

The government's get-tough policy also comes at a bad time for large companies that are suffering from a slump in Middle Eastern demand for construction workers from South Korea and a depression in the shipbuilding industry. Hyundai's executive vice president, H.Y. Lee, said that because of a slowdown in orders for construction from South America and the Middle East, the company had to diversify into new markets in Africa and Southeast Asia.

In shipbuilding, Hyundai expects to ride the slump "because of the quality of our labor force, which will work 24 hours a day if they have to, and cost one third less than Japan's," Mr. Lee said.

Nevertheless, Mr. Lee acknowledges that the "Korean economist must turn to high technology and transfer our heavy industries to other developing countries as they

catch up with us." Hyundai already plans investment in high technology by their group alone to reach about \$430 million by the middle of next year.

Samsung, Lucky Gold Star, Hyundai and Daewoo have all begun the transition to higher-technology products, but this time, they said, the decision to redirect the manufacturing sector was made less under government pressure than under the pressure of economic imperatives. And there is an uncharacteristic tentativeness among South Koreans about their exploration for a high-tech niche in Asia, where Singapore, Hong Kong and Taiwan are also aiming for growth in value-added electronics.

Daewoo's chairman, Mr. Kim, said: "We're not yet into semiconductors at Daewoo, and relatively speaking, our investment is not yet significant. We have the manufacturing capability, but so far we are not innovators. I am concerned that we still have to bring the software from the U.S. or Europe or Japan."

The EDB's Mr. Kim noted: "South Korea's timing may already be too late for entry into electronics. We have to look at 20 years from now, and we're taking a very painful and costly risk. Of the four companies starting to move in that direction, maybe two will lose. I myself am a little worried over the level of investment."

An Export-Led Economy Moves to World Stage

(Continued From Previous Page)

have to look to lowering inflation, reaching price stability and improving the balance of payments. We cannot forget our corporate sector and have to mobilize our domestic savings more effectively."

Reining in domestic savings is proving a difficult task. President Chun's chief economic adviser, Sakong Il, who succeeded Kim Jae-Ik, wants to increase the savings rate from 24.4 percent of gross national product at the end of last year to a target of 29.3 percent by 1986, still below Japan's and Taiwan's present rates of above 30 percent.

The liberalization plan includes total liberalization of foreign imports and investment by 1988, posing a considerable challenge to the chaebols in terms of competition just when their interest-rate burden is likely to increase. In the long term, the government is willing to take the risk.

"We say to the large corporations, they keep too many enterprises going at once, and the efficiency of one supports the inefficiency of the others; for their own survival in the international market, it's unwise," said Kim Dai-Young. Foreign bankers, too, worry that when they are lending to one of the big conglomerates the loan goes to the ailing division within the group, and they would like to see separate accounting practices from their borrowers. The large companies are not unaware of the need to

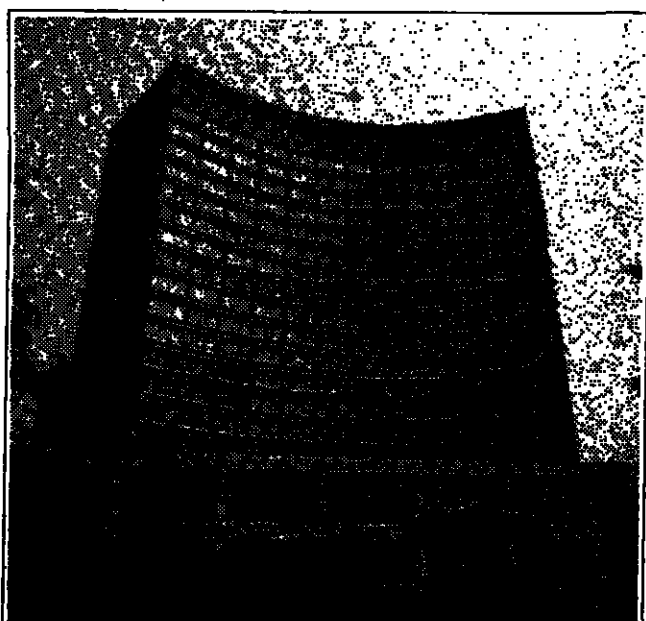
do nothing, time is on their side. "Political, economic and military factors in North Korea are all negative at this time, and change is inevitable in the long run," Mr. Han said.

"Every time North Korea has made some sort of provocation, we always use it to strengthen our national unity or consensus and support for the government," he said. "It is an occasion for South Korea to show confidence and restraint to the outside of our real power and will to keep peace."

— DINAH LEE



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After a Slow Start, Korea Fund Is Attracting Foreign Investors

THE GOVERNMENT'S master plan to open up the South Korean economy to foreign investment and trade by 1988 draws cynical smiles from some foreign businessmen and bankers who would like to see more action and less talk.

However, they cannot deny that one new development, the Korea Fund launched on the New York Stock Exchange in August, is an undeniably important step in the process of weaning the country off foreign borrowing (now \$42 billion) and increasing its use of direct foreign capital investment.

The Korea Fund already has captured the imagination of some foreign investors who regret not having bought Japan Fund shares in the 1960s when they were one-twentieth of their current price.

Although many international circumstances have changed since the Japan Fund began trading, there are some similarities. Like the Japan of the early 1960s, the Korea of today still boasts a relatively cheap labor force whose productivity is underutilized. Price-earnings ratios on the Korean Stock Exchange are still low, and the market itself is small — last year, the average trading volume was only \$7.5 million.

While the market is still thin and volatile, it, nevertheless, offers the risk-taker an unusual opportunity to invest in an economy with growth in gross domestic product of 9.3 percent in 1983, 5.6 percent in 1982, and 6.2 percent in 1981.

So it seems ironic that the Korea Fund, with all its obvious attrac-

tions, has had such a difficult time reaching the market place.

According to a former chairman of the Export-Import Bank of Korea, who is now the vice chairman of the Korea Fund, Tai-Ho Lee, the fund took three years to finalize. It had to wait longer than otherwise, he said, because of the discouraging performance of the Mexico Fund, the depressed state of the U.S. equities market, and the reluctance of potential U.S. partners to make the fund a public offering rather than a private placement.

The closed-end fund was launched August 2 at an initial offer of 5 million shares at \$12 each. The Korea Fund is managed by the country's largest stockbroker, Daewoo Securities, an arm of Daewoo Securities, the country's largest stockbroker.

U.S. managers are Scudder, Stevens and Clark, who charge a 1.1-percent annual management fee from the fund. In only its first day of trading, the Korea Fund qualified as the day's 15th most active stock, with a total of 803,300 shares traded.

According to Mr. Lee, 80 percent will be invested in Korean equities, while 20 percent will stay in U.S. mutual funds and money-market instruments. So as not to disrupt trading in Korea's market, no more than 50 percent will be invested in the first year so as to emphasize its objective as a long-term capital appreciation investment.

The Korea Fund was preceded by the introduction of two smaller Korea-based funds aimed at Euro-



High-rise buildings in central Seoul.

pean investors, the Korea Trust and the Korea Investment Trust, which now stand at 25 million shares each. Now that the Korea Fund has been successfully launched, the next step in the government's liberalization program will be allowing large Korean brokerage firms to accept equity investment of up to 10 percent of outstanding shares of a company from foreign brokerage houses.

The final stages will be to allow individual investors the chance to make limited equity investments,

and then, eventually, complete liberalization. But investors entering the Korean market, either through the fund, or some day through their own broker, must cope with greater political instability than in the United States as well as tensions associated with divisions of North and South Korea, as well as events like the Korean Air Lines 007 disaster in September 1983 and the Rangoon bombing in October.

Investors must also enter the Korean stock market understanding

its intrinsic volatility and manipulability. The Korean economy is heavily dominated by a handful of large trading houses, called *chaebols*, which operate in every aspect of the Korean commercial area from shipping and engineering to food and electrical household goods.

Furthermore, the level of research and analysis in the Korean stock market is primitive, something that Korean brokers are well aware of.

Sung-Kyu Lee of Dongsuh Securities said: "We're in the learning stage right now, and we need to learn everything. It's quite important to know how to service American investors, to change the style of our service by improving our information and recommendations. U.S. investors use data and tactics, while Koreans rely on simple financial information and rumors."

The risks are clear, particularly as Korea's growth is primarily export-dependent, and despite an improvement over the years in domestic savings, Korea's debt is still the

fourth largest sovereign debt in the world.

Mr. Lee said: "Our government is encouraging foreign capital investment rather than foreign borrowing. That means making the market a target for domestic savings. We want to improve the corporate equity/debt ratio so 1 feel the security industry is the most important for the economy at this moment and the immediate future."

— DINAH LEE



A student in Pusan learns electric line layout in a World Bank-sponsored vocational training project.

Protection Remains Trade Policy Theme

SOUTH Korea is now more liberal at its stage of development than Japan was at a comparable stage a few decades ago. Liberalized imports at the end of last year constituted the equivalent of just over 80 percent of total imports.

By 1988, the Koreans hope to reach roughly 95 percent liberalization, the level in developed countries. But critics of Korea's trade policy say that the picture is less bright than first appears. The president of the American Chamber of Commerce in Seoul, Richard Sholtz, compared Korea with Japan in terms of maintaining trade barriers, both visible and invisible, including high tariffs on items that are no longer officially restricted.

The Koreans respond that they must protect themselves as they develop, particularly in the agricultural sector, where 25 percent of the labor force is employed, but are liberalizing where they feel their products are competitive or where they have no advantages. They bridle when they are compared with Japan, particularly from the United States, where in the last two years, there have been 11 anti-dumping or countervailing lawsuits brought against Korean companies.

Daewoo Corp.'s executive managing director, Kye-Yong Choi, said that Japan has enjoyed a number of advantages during its development that Korea has not and that the size and sophistication of Korean exports do not compare with Japan's share, although the United States is Korea's largest market.

"When the Japanese were recovering from World War II, they had the bonanza of markets during the Korean War and then the Vietnam War," he said. "When South Korea decided to industrialize in the late 1960s and early 1970s we bought Japanese steel mills and petrochemical equipment. As we moved into electronics, they sold us parts we didn't have. Their other advantage is the size of their domestic market, 100 million people compared to our 40 million. And once we started exporting we encountered protectionist quotas that weren't in existence during the early days of Japanese development."

Together, the United States and Japan account for almost half of Korea's exports, but both have policies that constrain South Korea's access to their markets.

In 1983, the United States took one-third of Korea's exports and Korea ended the year with a \$1.8-billion surplus. To keep good will alive, Koreans toured the United States last spring agreeing to purchase \$2.4 billion worth of American goods, including aircraft and computers. Koreans are hoping that promises of increased liberalization for American investment into their own country and a two-

way flow of trade will appease growing American fears that South Korea is another Japan.

Ironically, although Koreans intend to stand by their commitment to liberalize their own markets by 1988, they are increasingly bitter about Japan's treatment of their exports. A slowing down of trade growth between the two countries is due in part to the lessening interest of Japanese investments in South Korea and reduced complementarity between the two economies. There is also increased competition between them in the race for sales of technology to third countries.

President Chun's recent visit to Tokyo marked a new era for both countries in terms of their diplomatic relations, but it may not have welded trade ties any closer together. Trade talks intended to pave the way for the presidential visit to Tokyo broke down within days of President Chun's departure for the Japanese capital.

The trade negotiator and director general at the Ministry of Commerce and Industry's Bureau of International Trade Promotion, Un-Suh Park, said: "At our working-level meeting with the Japanese, we strongly asked them to take some broad measures to give us some benefits. We wanted a reduction of tariff rates on fishery and textile products and to expand their generalized system of preferences for our textiles, shoe and leather exports."

According to Mr. Park, the Japanese response was very disappointing. Tokyo authorities said they would review the Korean requests in the context of opening their markets in the benefit of all developing countries, not just Korea.

Another disappointment of President Chun's trip for South Koreans was the lukewarm Japanese response to their plea against closer trade ties between Tokyo and North Korea. The stance of Prime Minister Yasuhiro Nakasone's comments were clearly in favor of lessening Pyongyang's commercial isolation from its neighbors.

By mid-September the economic climate between the two countries was cooler, not warmer, following the diplomatic visit by President Chun. The Japanese Ministry of International Trade and Industry (MITI) was accusing the South Koreans of tightening existing regulations so as to reduce the volume of Japanese imports to South Korea. The Japanese said they suspected that the South Korean government had instructed companies to toughen its implementation of the so-called recommendation system, which permits the importation of some 1,200 Japanese items so long as no South Korean company objects.

— DINAH LEE

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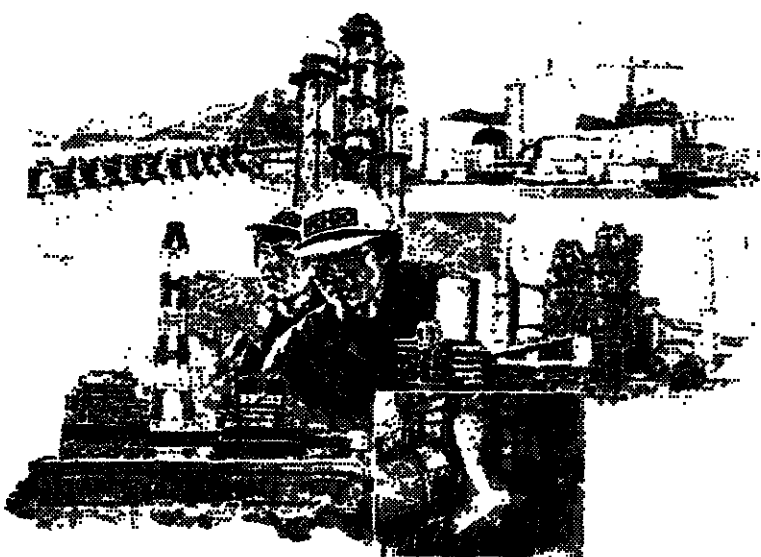


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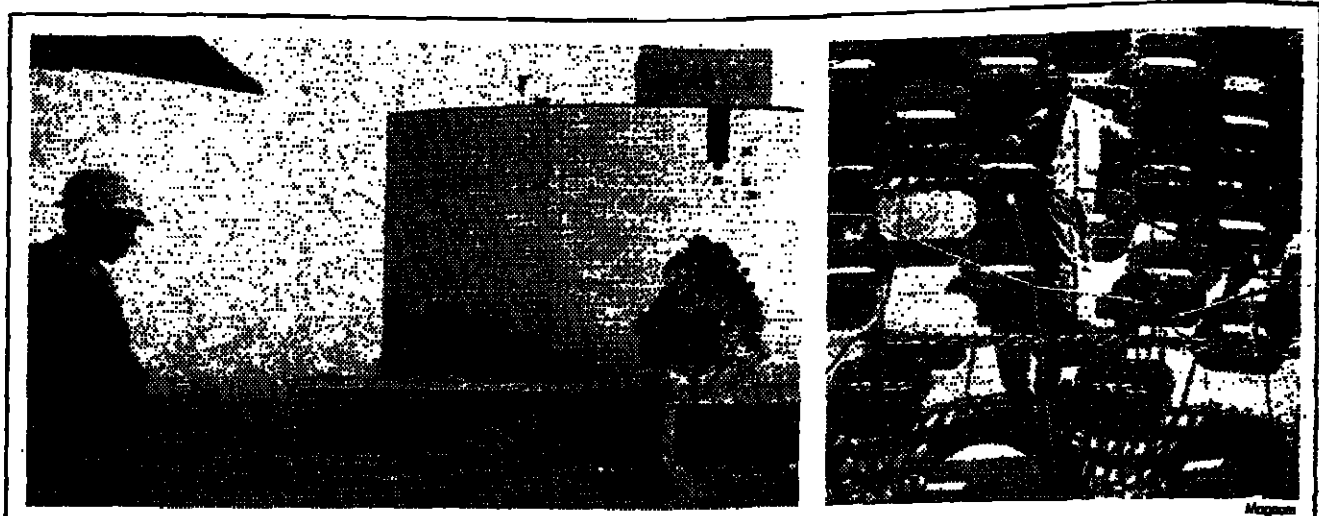
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A SPECIAL REPORT ON SOUTH KOREA



A new hotel under construction, left. Right, a Pusan steel factory.

Textiles Industry: Period of Transition

SOUTH KOREA'S textiles industry is in transition. While a steady growth in exports is necessary for maintaining economic growth, prospects are dim at best. Textiles and related products account for almost a quarter of the export-dependent country's total shipments. Officials at the Ministry of Trade and Commerce, industry analysts and company executives do not expect textile's share in total exports to decline substantially during the next several years.

However, the rate of the growth has considerably slowed down due to a combination of factors, low quality, a surge of new exporting nations and a less efficient industrial structure. Total textiles exports during January-June 1984 rose by 25.7 percent, to \$3.5 billion, from a year earlier. Encouraged by this surprising growth, the ministry intends to push the exports equivalent to \$6.68 billion, a 10-percent increase from 1983's total shipments. The growth is seen as a vindication of the ministry's effort to upgrade the industry after a decade of negligence in the 1970s when the government's entire investment and development program was geared for heavy and chemical industrial development.

In 1982, the government realized its mistake and implemented a \$1.34-billion modernization plan to double total textiles exports to \$12.4 billion by 1986, a goal that now seems to be impossible to achieve. The plan emphasized factory automation, improvement of dyeing technology and upgrading in quality and design of fabric and garments. The textiles industry can

not simply be neglected, said Lee Sung-Bae, an official at the Ministry of Trade, because it provides jobs for 30 percent of those employed in the manufacturing sector.

While the new and controversial U.S. regulations on "country of origin" labeling, if implemented, will not affect Korean exports, rising protectionist trends in principal importing regions like the United States and Europe do make Korean exporters worry. Unlike Hong Kong exporters, who use factories in China to produce goods, Korean counterparts rely on local facilities. Korean exporters generally are not pessimistic about the loss of market to emerging countries like China. Echoing the confidence of the industry, Kim Tae-Kil, the planning director of the Korea Federation of Textiles Industries, said: "The textile industry cannot thrive only with cheap labor. It requires a vertical integration of such other related sectors as machinery, marketing, accessories and a good source of power. After all, it took Korea more than a decade to come close to Japan's level and it might take another decade for new exporters to approach Korean standard."

Exporters, however, are not taking any chance and the government does not like them to be complacent. Korean exporters are exploring possibilities of setting up plants in the Third World, particularly in Latin American countries. Two exporters, Kyungduk Trading and Yulwaa Corp., for example, have set up joint-venture plants in Sri Lanka and Honduras. One prime motivation for such joint-venture plants

in third countries is to circumvent the quota system, now imposed on large exporters like Korea, Taiwan and Hong Kong by Western importing nations.

Leading exporters like Daewoo Corp., which built its \$4.25-billion empire on textiles, and the government emphasize development of value-added products. This, an analyst said, is easier said than done. While research and development on quality and design of fabric and high fashion are still at a rudimentary level, the country's textile industrial structure is less suitable for development of value-added products. It is next to impossible to guide so many thousands of mill owners on new trends in design and fashion. Most production facilities are obsolete, and replacement is expensive. Seamstresses are difficult to find, as women, now better educated, prefer to work in high-paying air-conditioned electronics assembly lines rather than in hot and humid sweatshops.

Higher tariff and higher wages raise production costs by as much as 20 percent above that of Hong Kong and Taiwan. Nevertheless, big exporters and manufacturers are taking steps in this direction. Daewoo, which owns the world's largest shirt-making plant (25.8 million shirts and blouses a year), is investing \$6 million a year in new equipment. Daewoo has an advantage because it manufactures sewing machines. Part of the investment also goes to factory automation with computer-controlled systems to reduce manual labor.

—LAXMI NAKARM

Ambitious Plans for Automotive Exports

Paul Ensor

GLOBAL THINKING in automobile production has become an increasingly fashionable concept, especially among U.S. producers, and South Korea may become one of the major beneficiaries of this new approach. Already in 1984, General Motors Corp. has concluded a major deal with the country's second largest producer of cars, Daewoo Motors, to produce sub-compacts, a large share of which will be sold on the U.S. market.

Rumors are now going around Seoul regarding other possible production tieups that U.S. firms have been discussing with local firms. The Korean industrial landscape is dotted with spectacular successes, as well as some daunting failures. The automobile sector has had its fair share of both, and foreign involvement would help producers cope with two nagging problems: access to foreign markets, and technology development.

Korean planners have always had very ambitious plans for the development of a large, export-oriented automobile industry. In the early 1970s, automobiles were designated a "strategic export industry," and production of cars grew rapidly to satisfy the booming domestic market until the oil crisis of 1979 and the recession that followed. Then came the crash—production of cars dropped by 50 percent in 1980 and capacity utilization fell to 23.5 percent. All three major producers were saddled with huge losses; one company, Kia Industrial, was forced out of the business under government pressure, leaving Hyundai and Daewoo to resolve the problem.

The recovery of the economy in 1983 raised the industry from its knees. Total turnover for the industry grew by 37.4 percent to \$1.9 billion; profits reflected the recovery of sales. Hyundai's after-tax profits more than doubled, to 25.1 billion won last year, compared to 11.2 billion won in 1982, and losses amounting to 35.8 billion won in 1980-81. For Daewoo, the turnaround was more striking—from losses of 22.7 billion won in 1982 to profits of 28 billion won last year. For the industry as a whole, capacity utilization soared to 70 percent. Indications are that 1984 will be another year of solid if less dramatic growth, although it would be difficult to keep up with last year's record—domestic sales are expected to grow about 10 percent and exports may grow much more from just under 20,000 cars last year to 30,000.

The improved performance seems to have restored the infectious bullishness of the past, and now automobile producers in Korea are bracing for another massive investment spree that will raise total productive capacity to 350,000 cars a year by 1986, compared to a total production of 121,000 units last year. As in the past, exports are expected to take off in 1986, reaching 100,000 units—which would be a fair jump from last year's less than 20,000 units, but slightly more realistic in view of the 137-percent growth in car exports recorded in the first seven months of 1984.

A number of analysts openly wonder whether this latest plan to bolt into the world of exports will be any more successful than the last. Many question where all the exports will be sent. Korean cars still do not meet U.S. safety stan-

dards, and exports to developing countries cannot be counted on—many now want to assemble their own cars, and the drop in oil prices has slowed demand in the Middle East, once considered a promising market. So far Britain and Canada have been the most successful buyers of Korean cars, almost entirely Hyundai's Italian designed sub-compact, the Pony.

The risks involved are enormous—the Koreans are talking about more than doubling the share of production that they export, from 14 percent last year to 33 percent in 1986. The prevailing rationale is the same as in the past—"If the Japanese did it, then why shouldn't Korea," as one executive put it.

However, quite apart from the differences between the two countries, the world auto market has changed since the Japanese share of the world market increased in the 1970s. While small Japanese cars were able to thrive on changed buying habits brought about by higher oil prices, the Koreans face a world that has grown more protectionist in light of Japanese exports, where the small car has become increasingly sophisticated. Kim Ki-whan, of the Economic Planning Board, is optimistic. He said: "The Japanese have kept within their voluntary restrictions on the U.S. market, but have continually moved upmarket, making more expensive cars, and leaving a niche behind them for small, cheaper Korean imports."

Another major question that hangs over the future of Korean auto exports is technology. Car production in advanced countries is moving from middle into high technology, with increasing use of new materials and electronic components to maximize efficiency. With the advent of these new technologies, it is not clear whether the Koreans will be able to compete with their relatively simple "boxes on wheels," as one U.S. analyst described them. "Korean cars have outdated suspension and transmission systems, they are not as fuel-efficient as their competitors, and they are heavy for their size," according to Richard Shotts, an automotive expert who is currently president of the American Chamber of Commerce in Seoul.

Hyundai Motor Co. is the giant among Korean auto manufacturers, with 47 percent of the total automotive market and domination in certain areas such as sub-compacts. Virtually all exports right now are from Hyundai, most of these are Ponys. Hyundai is planning to start production of its new front-wheel drive subcompact car in 1985, eventually reaching a productive capacity of 300,000 cars a year by 1986—of which it hopes to be exporting 100,000. S.W. Chon, a vice president, is elusive on exports. "We are just tiny on the world scale, but possibilities are great," he said.

Mitsubishi Motors have a 10-percent share in Hyundai, which comes with some technical assistance, and Ford (for whom Hyundai assembles Cortinas for domestic sales) is said to be helping with engines on the X car.

Daewoo Motors, with an 18-percent share in total output last year, is No. 2 by a long shot. Daewoo has been in the headlines recently with the recent signing of a deal with General Motors Corp. to produce T cars—front-wheel drive sub-compacts for domestic sales and

export to the United States starting in 1986. When production reaches full swing in 1988, Daewoo's capacity will be boosted by 165,000 units annually, of which 100,000 will be exported by General Motors to the United States.

Both Daewoo and GM have been quiet on the deal. There has been a similar blanket on discus-

sions currently under way between Chrysler and Samsung. Samsung has no experience in cars, but Chrysler is apparently seriously considering some sort of linkup, some clear word on this, which could face stiff opposition from Daewoo and Hyundai as well as the United Auto Workers, should come in the next six months.



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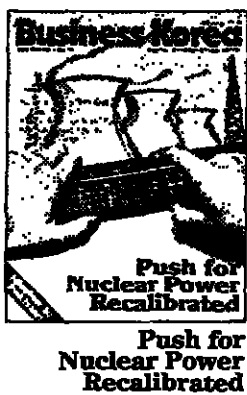
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Construction Industry Off to a New Start

A MAJOR but expected change took place in the South Korean construction industry when creditors of three internationally known builders intervened to streamline the companies' management.

In July, the state-owned Korea Exchange Bank (KEB) handed over Keangnam Enterprises to the Daewoo group for a fact-finding investigation of the company's affairs. Two privately owned commercial banks followed the KEB decision soon afterward. Korea First Bank transferred the management of Namkwang Construction to Sangyong Construction, and Cho Hong Bank requested Daewoo Industrial to manage "temporarily" Samho International. South Korea has a prime bank system under which a corporation should accept its creditor's decision. Bankers and analysts see the three cases as the beginning of a large-scale realignment of Korea's overgrown construction industry.

Keangnam, Namkwang and Samho are among Korea's top 15 international builders. A strong factor in the construction industry has been its "super-efficient" firms. This foundation is, however, giving way, with several other overseas contractors drifting between solvency and bankruptcy. "The business has never been so rough for so many contractors at the same time," one executive said. The image of the entire construction industry is at stake.

Korea won its first overseas contracts 20 years ago in Thailand. Since then, Koreans have received \$72 billion in contracts worldwide. Foreign-exchange remittances average about \$2 billion a year, reaching a total of \$15 billion as of mid-1984. Fifty-three companies are operating in 33 countries employing 153,000 Korean workers. Since the late 1970s, Korea has been the second largest international contractor behind the United States worldwide.

Koreans have been awarded some of the largest and most prestigious projects. Libya awarded what is described as the world's largest single contract — a \$3.2-billion job to solve its water problem by harnessing water beneath the Sahara — to Dong Ah Construction Industrial. Hyundai Engineering and Construction is bridging the 4.2-mile span between Penang Island and the Malaysian peninsula, and Sangyong Construction will complete within a few months "a city within a city" — Singapore's Raffles city project. Companies like Hyundai and Samwhan are generally given priority by such tough clients as Aramco and the U.S. Corps of Engineers.

While the opening of the Middle East market helped develop Korea's overseas construction industry, overdependence (85 percent of the total contract value) in this single market also caused several problems to the industry. When oil revenues were flowing into the coffers of countries like Saudi Arabia and Libya, the owners were ambitious and generous. Several leading companies took this opportunity to reap profits. But as oil revenues thinned, Libya, Saudi Arabia and Iraq drastically reduced new development projects. Along with this reduction came changes in such regulations as advance payment and localization (priority to local companies in awarding simpler infrastructure projects), which seriously affected Koreans who, according to a company executive who asked to remain anonymous, used the advance money to finance other projects.

Bankers such as Tom Pyle, of Chase Manhattan in Seoul, and Mike Wood, National Commercial of Saudi Arabia's Seoul representative, agree that the construction companies were circled viciously by liquidity shortage, low bid prices and declining new orders. Mr. Pyle said that payment delays from the project owners in the Middle East have hurt the flow of funds.

According to Lee Seung-Yeom, president of the Overseas Contractors' Association of Korea, payments still to be collected from clients amount to as much as \$3.5 billion, an amount big enough to crush the thinly capitalized construction firms. Lower advance payments, down from 20 percent of contract value to 5 percent in some cases, have thinned cash available for project mobilization. Higher costs of labor and equipment have taken their toll on their profitability. (Net profit to sales has declined steadily from 4.2 percent in 1980 to 1.3 percent in 1983 for the industry as a whole.) Fewer projects are coming up for bids, so contractors are bidding lower and lower to win them. New contracts awarded to Koreans peaked to more than \$13 billion in 1981 and 1982. Even an optimistic projection places total new contracts in 1984 at less than \$7 billion.

The industry's problem was not that of the companies alone. The nation's companies borrowed more than \$4 billion from offshore sources and, although details are not available, local commercial and state-owned banks are believed to have given about the same amount in loans, performance bonds and payment guarantees. Bankruptcy of one construction company could be enough to send a commercial bank under.

The problems in the industry also forced the government, which now prefers less intervention in private business, to step in. The minister of construction, Kim Sung-Bae, told a group of contractors in August that the government could not leave the industry to itself and asked them to voluntarily rationalize their management and operations. The government quickly worked behind the scenes on the transfer of the management of the three companies and served notice to several others to take steps if they want their license to remain valid.

Mr. Kim in a statement announced a carrot-and-stick policy. These companies that opt for rationalization through disposal of real estate and subsidiaries and withdrawal from overseas job sites would qualify for financial relief from the government and banks. The message was clear, as several companies quickly sold off real estate. Namkwang, for example, sold its headquarters building in downtown Seoul. Jungwoo Development, a major contractor active mostly in Kuwait, announced its plan to dispose of its subsidiary, Jungwoo Energy.

As carrot, the government offered a variety of incentives to financially sound companies. They will qualify, for example, for financing by the Export-Import Bank of Korea for those construction projects that require a contractor to finance the job. The companies will also be able to borrow offshore up to 50 percent — up from 30 percent now — of the contract value to finance a project. They would also be allowed to hire more non-Korean workers. Those companies that failed to take any steps will be subject to strict government scrutiny, meaning no help.

But the most important part of the policy is "traffic control," under which the Ministry of Construction prevents a certain company from operating in a certain country. Daewoo Corp., for example, is not allowed to bid in Saudi Arabia for civil-engineering projects. The so-called sound companies will get priority when a new market opens. Officials in Pakistan, which recently invited Korean companies to take part in Pakistani development programs, found dozens of company executives calling on them.

Bankers and analysts expect the government to reduce the number of overseas contractors to a leaner but healthy size of 20, from 53 now. This is seen as necessary to cool the heated competition among Korean companies themselves. The government is watching closely how Hyundai, Daewoo and Daewoo behave in the war-torn Iranian market.

Iran was a major market for Koreans before the fall of Shah Mohammed Reza Pahlavi. The revolution forced all Korean contractors to withdraw from the country, leaving several unfinished projects.

Recently, Daewoo Industrial concluded a \$200-million natural-gas plant and, according to industry sources, successfully renegotiated compensation for two projects — a \$150-million, 90-percent completed natural-gas plant and a 40-percent complete \$36-million Tabriz power plant — left unfinished when the contractor withdrew. Similarly, Hyundai is also negotiating compensation for \$200 million worth of projects.

Daewoo is a late entrant in the market and it signed a \$100-million railway project early this year. Daewoo, which likes to take "grand risks" for higher profit expects to win \$300 million worth of new contracts, Iran, trying to restore confidence of foreign businessmen, pays in cash, something rare in the present international market.

Across the border in Iraq, Hyundai is busy. It recently won a \$730-million contract to build a power plant at Al Musaiib. Despite the war, Hyundai officials said, no major losses have been suffered. Iraq, like Libya, had payment difficulties in 1982, but Saudi Arabia is paying Hyundai for Iraq partly in oil.

Contractors like Hyundai and Daewoo believe the present slowdown in the market is a cyclical factor, and they expect the market to improve in 1985 and 1986. The Wharton Economic Forecasting Institute and Chase Econometrics both projected large-scale increases in Middle East contracts in the next three years. The success of Korean companies, however, will depend to a large extent on their ability to tie up with European, Japanese and U.S. companies as most projects coming up in the region will be technology oriented and Korea does not have a high level of technology at this point.

The government is well aware of this reality and, as such, has taken steps to make such joint ventures or technology import less bureaucratic. The government also told construction companies to improve technological capability at a rapid pace.

An analyst said recently: "What is important for profitable tapping of the Middle East market is to adopt good project evaluation, austere management and a business style that emphasizes low turnover and high profit. All of these essential qualities were found to be starkly absent among the companies now in trouble."

— LAXMI NAKARMI

In Pusan, a major port is being developed with an \$80-million World Bank loan.

Shrinking Market Sets Back Shipbuilders

By Ann Charters

WAITING OUT the recovery in the world shipping market with its eventual resurgence in new orders is not proving to be easy for South Korea's shipbuilding industry.

In 10 years, Korea has moved from a nearly insignificant producer to second place among world shipbuilders in terms of numbers of ships completed and new orders captured, only to find the market now half the size it used to be.

In 1973, Korea accounted for 1 percent in ship completions out of a world total of 30.4 million gross registered tons. By the end of last year, Korea was producing 10 percent of the world's new vessels, with 1.5 million gross registered tons completed. Total ship completions worldwide for 1983, however, reached only 15.7 million tons according to the Lloyd's Register of Shipping.

Korean yards are still busy, and ships are being christened and delivered at a faster pace than new

orders are being placed. With its current orderbook of 63 vessels valued at \$1.3 billion, Hyundai Heavy Industries, Korea's largest shipbuilder in terms of facilities, said it can keep its shipyard at Ulsan working until early 1986. The company indicated that the yard is now operating at 70 to 80 percent of capacity.

Daewoo Shipbuilding and Heavy Machinery Ltd., Korea's newest shipyard inaugurated just three years ago, has contracted to build 66 vessels valued at \$1.5 billion. The company estimates that the orderbook plus an additional \$300 million in contracts for plants and offshore structures should keep the yard based on Kije Island fully occupied until late 1985.

While that date is still a year away, shipbuilders would be more comfortable with a longer, healthier backlog. For new orders, this year is bleak compared to the last. As of the end of August, according to the Korea Shipbuilders Association, Korean yards had received

orders for 68 vessels valued at \$960 million, with gross weight tonnage totaling 1.6 million. Last year at the same time, the Koreans had twice as many new contracts in hand.

Korea's other two major shipyards, Korea Shipbuilding and Engineering Corp. and Samsung Heavy Industries, have also felt the pinch from declining export orders. Together with Hyundai and Daewoo, the four companies account for 90 percent of the country's shipbuilding capacity.

There is a general consensus in the industry that the slump in shipping worldwide, still plagued with too few cargoes for far too many ships, means that orders for new tonnage are not expected to pick up before the end of 1985 or even well into 1986.

There is little sympathy among shipbuilders around the world for the current Korean dilemma since European shipyards, in particular, have felt the downturn in shipping and the paucity of new orders far earlier.

The fierce competition over scarce contracts in recent years has been mainly concentrated in Japanese and Korean shipyards trying to outbid each other on price, delivery dates and financing terms. Last year, the Japanese were far more successful, capturing 56 percent of all new orders. Koreans won 19 percent and Western European yards landed 10 percent.

But there has been no recurrence of stunning orders this year to rival last year's massive order for 100 bulk carriers that the Japanese Sankei Steamship Co. placed with Japanese shipyards or the new very large 12-vessel container fleet or-

dered by U.S. lines with Korea's Daewoo shipyard.

Unlike the Japanese, Korea has few domestic ship orders to fall back on when orders from overseas fall off. Korea's shipbuilders face the prospect that dwindling orders may require some of their well-trained, low-cost labor force to be retrained for other industries.

Hyundai Heavy Industries, with its seven building docks, one large enough for a 1-million DWT vessel, and one shipyard, has managed to show a profit, albeit slim, every year since 1980. In 1983, profits were about \$38 million on sales of \$1.4 billion.

Earlier this year, offshore structure activities were merged with a division of Hyundai Engineering and Construction specializing in offshore work to form the new Hyundai Offshore Development. The company, also located in Ulsan, has no dock but has a large yard for fabricating jackets and platform modules. The company hopes to be better positioned to market its services in the new format.

Daewoo shipbuilding had its first profitable year last year with profits of \$7 million on sales of \$620 million. The company inaugurated a second dock in mid-1983 for repair and conversion work that can accommodate a 350,000 DWT vessel, adding to its 1-million-DWT capacity main dock.

Now that Korea has established the reputation of its shipbuilding industry as an efficient, highly competitive newcomer, it has to demonstrate its skill in staying afloat until the shipping market recovers and shipowners once again want new tonnage.

CONTRIBUTORS

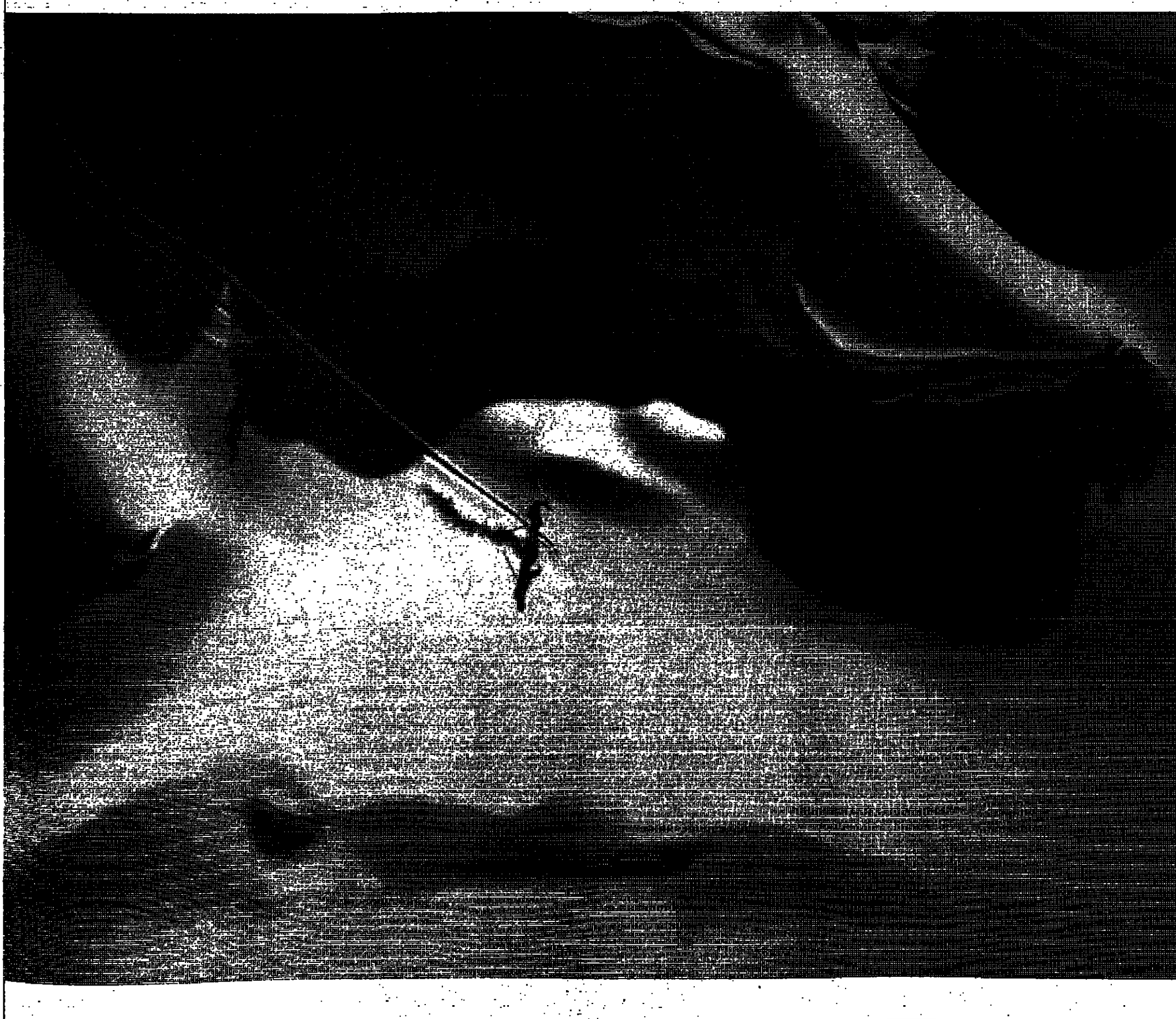
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EXCEED US\$60 BILLION.

NYSE Most Actives			
Symbol	Price	Change	Volume
IBM	117.25	+0.25	1,100,000
AT&T	47.125	+0.125	1,000,000
GE	28.125	+0.125	900,000
AMT	24.125	+0.125	800,000
MSFT	23.125	+0.125	700,000
GO	22.125	+0.125	600,000
BA	21.125	+0.125	500,000
DIS	20.125	+0.125	400,000
W	19.125	+0.125	300,000
HP	18.125	+0.125	200,000

Dow Jones Averages			
Index	Open	High	Low
Industrial	1172.50	1175.00	1170.00
Transportation	1172.50	1175.00	1170.00
Utilities	1172.50	1175.00	1170.00
Composites	1172.50	1175.00	1170.00

NYSE Index			
Index	Open	High	Low
Composite	1172.50	1175.00	1170.00
Industrial	1172.50	1175.00	1170.00
Transportation	1172.50	1175.00	1170.00
Utilities	1172.50	1175.00	1170.00

NYSE Closing			
Index	Open	High	Low
Composite	1172.50	1175.00	1170.00
Industrial	1172.50	1175.00	1170.00
Transportation	1172.50	1175.00	1170.00
Utilities	1172.50	1175.00	1170.00

AMEX Diaries			
Index	Open	High	Low
Composite	1172.50	1175.00	1170.00
Industrial	1172.50	1175.00	1170.00
Transportation	1172.50	1175.00	1170.00
Utilities	1172.50	1175.00	1170.00

NASDAQ Index			
Index	Open	High	Low
Composite	1172.50	1175.00	1170.00
Industrial	1172.50	1175.00	1170.00
Transportation	1172.50	1175.00	1170.00
Utilities	1172.50	1175.00	1170.00

AMEX Most Actives			
Symbol	Price	Change	Volume
IBM	117.25	+0.25	1,100,000
AT&T	47.125	+0.125	1,000,000
GE	28.125	+0.125	900,000
AMT	24.125	+0.125	800,000
MSFT	23.125	+0.125	700,000

NYSE Diaries			
Index	Open	High	Low
Composite	1172.50	1175.00	1170.00
Industrial	1172.50	1175.00	1170.00
Transportation	1172.50	1175.00	1170.00
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Prices Are Mixed on the NYSE

By Alexander R. Hammer
New York Times Service

NEW YORK — Prices on the New York Stock Exchange, which have been under pressure most of this week, finished mixed on Friday in more active trading.

The Dow Jones Industrial Average ended the session down 4.86 points, to 1,172.53, thus decreasing its loss for the week to 24.18 points. But, in the overall market, advancing issues narrowly outpaced those that fell by 762-to-675.

Analysts attributed the market's current depressed state to a multitude of factors. These included investors' fears that the apparent slow-down in the economy may worsen and weaken corporate profits.

They also noted that Wall Street is concerned that interest rates may remain high over the near-term and that there was anxiety over the outlook for inflation, the huge federal budget deficits and the overextended loan problems of some banking institutions.

Equities discounted the strong price gains in the credit markets Friday as well as the news before the opening that the unemployment rate in September fell to 7.4 percent from 7.5 percent the month before.

Volume expanded to 83 million shares from 76.7 million shares the day before. For the week, turnover on the exchange contracted to 415.1 million shares from 450.8 million shares in the previous week.

Suresh Bhird, portfolio strategist for First Boston Corp., commented that the lack of clear evidence that the Federal Reserve "is easing its monetary policy, which tends to weaken inter-

est rates," is another factor for the market's weakness.

He also pointed out that there currently is no group leadership in the market and "stock selection is like walking through a mine field."

Caterpillar was among the big losers Friday, dropping 2 1/2 points, to 31 1/2, in very heavy trading. Analysts attributed the stock's weakness to expectations that directors will cut the 37-cent quarterly dividend at their meeting next week.

Last week, the company disclosed it would have a loss for its third-quarter and perhaps for the entire year because of a recent drop in construction machinery sales.

Procter & Gamble lost 2, to 53 1/2, after an analyst at Salomon Brothers cut its earnings estimates for the company. He said the consumer-products concern could earn \$1.40 a share in the third quarter and not the \$1.55 a share he previously projected.

Honeywell fell 3 1/2, to 54 1/2, following its announcement late Thursday that it expects flat third-quarter operating profits. Among the other weaker technology issues, Teledyne slipped 3, to 28 1/2, and Texas Instruments was down 1, to 12 1/2.

Campbell Soup, which has been strong recently on takeover rumors despite denials by the company, advanced 2 1/2, to 68 1/2.

AMP Inc. was off 1 1/2, to 29 1/2, reflecting its announcement Thursday that third-quarter sales will be lower than previously expected.

National Intergroup, which agreed to a merger with Bergen Brunswig Thursday, rose 2, to 29. The latter stock, which trades on the American Stock Exchange, closed up 2 1/2, to 23 1/2.

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ECONOMIC SCENE

U.S. Might Be Heading Into 'Growth Recession'

By LEONARD SILK
New York Times Service

NEW YORK — Is the economy heading for a recession in 1985? Most economists are saying no; it is just slowing down to a healthier and more sustainable rate of growth. However, some of them believe that by the latter part of next year, the economy could be in what they call a "growth recession."

A growth recession is one in which the rate of growth is so slow as to cause a rise in unemployment. As productivity and the labor force increase, the economy needs to rise at an annual rate of nearly 3 percent just to hold the jobs rate where it is.

The latest survey by Blue Chip Indicators of Sedona, Arizona, shows that the consensus among four dozen leading economists and business organizations is for an increase of 3.5 percent in inflation-adjusted, or real, gross national product in 1985 on a year-to-year basis. That growth would be enough, according to the forecasters, to reduce the average rate of unemployment next year to 7 percent — about half a percentage point below where it is now.

But the spread among the forecasts is fairly wide. Four groups of economists — at Business Economics Inc., the Conference Board, Cahners Publishing Co. and Morgan Stanley — are predicting real growth of 1 1/2 to 2 percent in 1985. And five of the forecasters — Morgan Stanley & Associates, the University of Michigan, Econoclast, the U.S. Chamber of Commerce and Morgan Guaranty — are predicting real growth of 4.5 to 5.2 percent.

The lowest growth forecast, Morgan Stanley, sees unemployment rising to an average 8 percent in 1985, while the highest forecast, the Chamber of Commerce, sees a drop to 6 percent.

The forecasters are in much closer agreement, however, that the economy will be in a gradually slowing trend next year. The consensus predicts that in the fourth quarter real GNP will grow by only 2.8 percent from a year earlier.

Has the economic slowdown already begun? The answer is probably yes.

Despite the slowing of the growth rate, the consensus forecast is that inflation will rise, reaching an annual rate of increase of 5.6 percent in the Consumer Price Index by the fourth quarter of 1985. The rise this year has been about 4 percent.

Most of the economists expect that the restraining factors of continued price weakness in oil, food and internationally traded commodities will be more than offset by a weakening of the dollar, growth in protectionism and continuing big budget deficits. The economists think that with such deficits the Federal Reserve is likely to put pressure on interest rates to keep inflation under control.

The consensus forecast calls for three-month Treasury bills to move up to an average of 10.7 percent next year from the current level of about 10.4 percent. But the range of the forecasts is from 8.5 percent to 12.5 percent.

Similarly, the consensus forecast is for triple-A corporate bonds to rise a bit, averaging 13.5 percent next year. However, the range among the forecasters stretches from 11.6 percent to 15.2 percent. Optimism and pessimism are all mixed up about the outlook, depending on whether one is concerned primarily about interest rates and securities values or about sales and unemployment.

Has the economic slowdown already begun? The answer is probably yes. The government's index of leading indicators dropped in June and July, but showed a slight rise in August, largely on the strength of a rally in stock prices. However, there has been continuing evidence of a decline in such "real" indicators as the average workweek of production workers in manufacturing, unemployment insurance claims, vendor-delivery performance, plant and equipment contracts and orders, and building permits. As the stock market slipped in September, as did housing, it is likely that the leading indicators will point downward again.

If a recession is already in the works, the electorate will not know it before the Nov. 6 election. It seems clear that no recession had begun in September, and if it were to begin in October the data would not be available.

Currency Rates

Official foreign exchange rates on Oct. 5, excluding fees.
Official foreign exchange rates on Oct. 5, excluding fees.
EDT.

	U.S.	DM	FF	Yen	Sw.	Sc.	Sp.	Yen
Amsterdam	166.00	76.40	20.25	3.71	17.50	12.80	24.70	34.90
Bombay	20.00	22.10	1.15	8.07	4.92	12.80	1.91	1.91
London	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Paris	166.00	76.40	20.25	3.71	17.50	12.80	24.70	34.90
Stockholm	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Switzerland	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Madrid	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Barcelona	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Seville	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Valencia	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Malaga	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Granada	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Almeria	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Jaen	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Cordoba	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Huelva	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Cartagena	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Murcia	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
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Huelva	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Cartagena	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Murcia	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Almeria	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Granada	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
Almeria	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.49
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Jaen	1.28	0.71	11.50	2.40	1.60	7.51	3.15	305.4

BUSINESS ROUNDUP

ARA Board Backs New Buyout Bid by Executives

PHILADELPHIA — The board of ARA Services Inc. has unanimously approved a new \$890-million leveraged buyout that was proposed by its top executives, the company announced Friday.

The ARA officials, including the board chairman, Joseph Neuberger, will pay \$62.50 in cash and subordinated debentures with a face value of \$9.25 for each of the company's 124 million common shares outstanding, the company said in a statement.

In mid-September, ARA rejected

an offer by executives to purchase the company for \$874 million. The offer involved payment of \$62 in cash and subordinated debentures of \$8.50 for the diversified services company's shares outstanding.

In July, ARA rejected an offer by a group led by a former ARA executive, William Siegel. That group had offered to acquire the company for \$720 million, or \$60 per share, in a leveraged buyout.

In a leveraged buyout, a purchase is financed almost entirely with borrowed money. The debt is

paid off with revenue generated by the acquired company or through the sale of its assets.

The 15-year debentures in the plan announced Friday will pay 14.5 percent interest. They will be subject to mandatory redemption of 20 percent of the face amount each of the last four years.

The company said the group of investors is headed by Mr. Neuberger, also the president and chief executive officer, and includes about 74 other top company officials.

The transaction is subject to de-

finitive financing and approval by stockholders.

The board also said the company has agreed in principle to the settlement of four lawsuits that allege that the merger transaction, as originally proposed, was unfair to holders of common stock.

ARA is a diversified company that provides basic services for industry and government, including food and refreshment, textile rental, maintenance and laundry, periodical distribution, transportation and health and child care. The company employs 116,000 people.

COMPANY NOTES

American Telephone & Telegraph Co. said it filed with the Federal Communications Commission to reduce its telephone rates starting Nov. 19 to Britain, France, West Germany, Italy, Ireland and Australia as part of an overall revision of its international rate structure.

General Motors of Canada Ltd. will almost certainly face a strike by the United Auto Workers union, the UAW director for Canada, Robert White, said after the company made its first economic proposal to the union, 12 days before a strike deadline.

Chif & Western Industries Inc. said that it reached an agreement to sell its sugar operations in Florida

and the Dominican Republic to a group of investors for an undisclosed amount. The investors include Alfonso Fajul and his brother, J. Pepe Fajul of Palm Beach, Florida.

Kanawha & Broad Inc. said it has entered into an option agreement giving it the exclusive right to acquire Capital Life Insurance Co. from Providence International. The company said the option expires on Oct. 29.

NEC Corp. of Japan said it is negotiating a project to produce personal computers in China on a knockdown basis with major parts supplied from Japan. A NEC spokesman said that it is not clear whether the project would be a

joint venture. He gave no further details.

NY Philip's Signetics Corp. subsidiary said it expects revenue this year to rise to between \$725 million and \$740 million from \$415 million in 1983.

Stone Darby Ltd.'s profit outlook is bleak for the year ending June 30, the chairman, Tan Siew Sin, said in the annual report. He attributed the possible drop in earnings to weak commodity prices and the fall in the timber industry that has affected sales of heavy equipment. In the year ended last June, group pretax profit was 21.4 million Malaysian dollars (\$90 million), up 93 percent from a year earlier.

Paper Discloses A Lloyds Memo Criticizing Bank

Reuters

LONDON — A Lloyds Bank International internal document criticizing the bank's profit and bad-debt performance, quoted in London's Standard newspaper, was written to motivate management and staff, the bank's parent, Lloyds Bank PLC, said Friday.

In the first half of 1984, the unit's pretax profit fell 17 percent from a year earlier to \$30 million (\$99 million), largely because of problem loans. The document described the performance as "feeble."

In trading Friday on the London Stock Exchange, Lloyds shares fell to 492 pence (\$6.10) a share, down 12 pence.

The paper quoted the bank's chief executive officer, Eric Whitte, as saying the bank plans remedial action to cut costs, "however painful this might be."

French Firm to Supply Pipe

Reuters

PARIS — Sollac, a subsidiary of Sacilor, the French government-owned steel company, will supply 60,000 metric tons of spiral steel tubes to All-American Pipeline for use in linking Texas refineries to California oil fields, Sollac announced Friday.

U.S. Approves Arco Sale to Alcan But Insists on Joint Venture for Mill

The Associated Press

WASHINGTON — The Justice Department approved on Friday the sale of most of Atlantic Richfield Co.'s aluminum assets to Alcan Aluminum Ltd. but only after forcing an unprecedented agreement that would bar Alcan or any other major aluminum producer from getting control of Arco's new mill.

For the first time, the department's antitrust division convinced two competitors to resolve a potential antitrust problem by restructuring part of their deal as a joint venture rather than an acquisition.

That type of solution was first advocated by Assistant Attorney General J. Paul McGrath, head of the department's antitrust division, earlier this year when he looked at two controversial steel mergers. But the steel companies did not take his suggestions, and their cases were resolved in different ways.

Under the revised transaction, Montreal-based Alcan, the largest aluminum producer outside the communist countries, will acquire most of the aluminum assets of Arco, a major oil company based in Los Angeles.

But under the agreement, Al-

can's interest in Arco's just-completed rolling mill in Logan County, Kentucky, is limited to 40 percent. A joint venture would be established to run that mill, and for the next 10 years, the remaining 60 percent would be owned either by Arco or any company other than a major aluminum producer.

Arco said it would seek a buyer for its interest in the plant, the only aluminum rolling mill built in this country in more than a decade. The facility was designed to produce aluminum can body stock, a sheet product used to make beverage cans, and was to be Arco's means of moving into that business.

In the original sale announced Jan. 5, Alcan was to pay Arco cash and securities valued at between \$600 million and \$1 billion.

The case also is one of the first in recent years based on allegations that section 7 of the Clayton Act would be violated by a deal that reduced potential rather than actual competition. The section prohibits mergers or acquisition that tend to substantially lessen competition.

Jardine Ponders Singapore Move

Reuters

HONG KONG — Jardine, Matheson & Co. said it would not comment on the decision announced Thursday by the Monetary Authority of Singapore to withdraw approval for Jardine Fleming (Singapore) Pte. Ltd. to operate as a merchant bank.

The Singapore unit is equally owned by Jardine and by Robert Fleming & Co. A Jardine spokesman said that the merchant bank's parent company, Jardine Fleming Holdings Ltd., would issue a statement later.

Robert Fleming's deputy chair-

man, David Thomas, said in London that his company was surprised by the decision and would seek further clarification from Singapore. The MAS had said that the bank's conduct of its merchant banking activities had been unsatisfactory.

man, David Thomas, said in London that his company was surprised by the decision and would seek further clarification from Singapore. The MAS had said that the bank's conduct of its merchant banking activities had been unsatisfactory.

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Rockwell Draws Fire of Analysts Over Reliance on Defense

(Continued from Page 13)

disapproval of the stewardship of Robert Anderson, who succeeded him as chairman and chief executive, Mr. Rockwell resigned from the board.

"I don't like the way they're going," he said. "The company is going on a billion and a half dollars in cash. I thought they were passing up too many opportunities" by not quickly making acquisitions. Too much of the company's future growth, he said, is dependent on the B-1 and on exports of military equipment.

"The company has brought the early day of reckoning upon itself. In a move that has been called politically motivated, Rockwell has been speeding production of the B-1, which now accounts for one-third of its revenue. The company reasons that an acceleration of the timetable could extend the program, rather than end it. If it were brought to a close several years before the projected start-up of Northrop Corp.'s Stealth bomber program in the 1990s, that could create a military jobs vacuum, a situation that would be politically untenable, so Rockwell's management thinks."

Despite the uncertainty that accompanies military contracts — and the cash hoard that the company could use to diversify out of them — Rockwell seems to be making an ever greater commitment to the Pentagon.

Since Mr. Anderson, who is 63

years old, succeeded Mr. Rockwell as chief executive in 1979, and later as chairman, his actions have long been heavily influenced by military and space contracts. Nearly two-thirds of the company's revenue and half its profit now come from government contracts — including work on the MX missile, the navy's communications satellite program and the Hellfire tactical missile for the marines.

And, Mr. Anderson insisted, that's where much of Rockwell's future growth lies. "We haven't made any big acquisitions and I doubt that we will," said Mr. Anderson, who was recruited by Mr. Rockwell from Chrysler in 1968 to run the company's brake and axle division. "Our view is that we're already in four strong businesses." In addition to brakes and axles and the military business, they are electronics and printing presses, valves and meters.

Clearly, Rockwell is moving aggressively to win more government business. The company has set its sights on the Pentagon's next fighter aircraft. It wants to build the \$3-billion space station for the National Aeronautics and Space Administration that is to be placed in permanent orbit. If the political cards fall right, the company can expect authorization for another \$2-billion space shuttle and an order for another 100 bombers. The first 100 B-1s represent a \$25-billion investment for the United States.

Specifically, Rockwell is banking on Congress to authorize more planes before the 1986 congressional elections because politicians would be anxious to save the jobs of the 20,000 workers in 48 states who are working on the B-1 program.

If that view proves correct, it will not be the first time that Rockwell has profited by keeping its finger in the political wind. After the B-1 was canceled, "I received strong encouragement even from Carter's Secretary of the Air Force to continue our program. We never lost confidence that the nation needed the program," Mr. Anderson says.

He concedes there are political risks involved in such a heavy reliance on military budgets. "I hope he's re-elected for the sake of this program," Mr. Anderson says of Ronald Reagan and the B-1. In fact, Mr. Anderson has worked hard to cultivate strong ties to the Reagan administration and his efforts seem to have paid off. Mr. Reagan appointed him to the Presidential Commission on Industrial Competitiveness, and twice named him chairman of National United Nations Day.

"Our view is that the nation will need more of what we produce," he said. "Congress is sympathetic. The president is sympathetic." But Wall Street is not. Regardless of what Mr. Anderson says about the company's lack of inter-

est in diversifying, Wall Street is perplexed by Rockwell's cash hoarding and anxious for the company to make an acquisition that would clearly signal its future direction. And institutions shun the stock because they don't understand Rockwell's product mix.

Recently, as the shares of many fellow companies in the industrial-military fraternity reached record levels, Rockwell's have remained stuck in the \$28 range, \$7 below the record set in June 1983. With a price-earnings ratio of about 7, it is not even performing as well as most industrial stocks.

The company's decision earlier this year to accelerate production of the B-1, which had been abruptly canceled by the Carter Administration in 1977 and reinstated by the Reagan administration in 1981, is perpetuating controversy at Rockwell. "They're taking a highly risky approach," said Mr. Nisbit of Prudential-Bache. "They're shortening their decision time as to what to do next."

Under a plan laid down in 1981 for B-1 production, the first plane was due to be delivered in February 1985. Now, however, it is scheduled to make its first flight before November's presidential election. The company's plan to accelerate production is likely to stay on course, despite the crash in late August of a prototype of the bomber, used only for testing. The Pentagon attributed the crash to the plane's effort to avoid colliding with a trailing ob-

servation plane, and the accident is not expected to interrupt the production schedule.

Rockwell now expects to deliver seven planes by the end of fiscal 1985, up from the two originally planned. In fiscal 1986, the production line will turn out 32 planes (compared with 18 under the original schedule), reaching its peak rate of four a month by September. Revenue from the program is expected to reach \$2.5 billion this year, \$3.5 billion in 1985 and \$4.2 billion in 1986, fully a third of the company's sales in all three years.

Gold Options (quotes in \$/oz.)				
Month	Nov.	Dec.	Jan.	Feb.
300	100.00	100.00	100.00	100.00
200	100.00	100.00	100.00	100.00
100	100.00	100.00	100.00	100.00
50	100.00	100.00	100.00	100.00
25	100.00	100.00	100.00	100.00
10	100.00	100.00	100.00	100.00
5	100.00	100.00	100.00	100.00
2	100.00	100.00	100.00	100.00
1	100.00	100.00	100.00	100.00

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[illegible]

Oct. 5

NASDAQ National Market Prices

Net	Sales in	100% High Low 3 P.A.C. Ctr's	Net
15	100	1774	19
16	100	1774	19
17	100	1774	19
18	100	1774	19
19	100	1774	19
20	100	1774	19
21	100	1774	19
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96	100	1774	19
97	100	1774	19
98	100	1774	19
99	100	1774	19
100	100	1774	19

Pakistan Eases Rules On Loans From Abroad

Reuters

KARACHI — Pakistan, hurt by falling foreign-exchange reserves, has eased a requirement that government approval must be obtained before private loans are received from foreigners, the State Bank of Pakistan said Friday.

The bank said the rule was eliminated for loans that carry interest not exceeding 1.5 percentage point above the London interbank rate. It said agreements for foreign private loans and suppliers' credits will automatically be approved by

Reuters

KARACHI — Pakistan, hurt by falling foreign-exchange reserves, has eased a requirement that government approval must be obtained before private loans are received from foreigners, the State Bank of Pakistan said Friday.

The bank said the rule was eliminated for loans that carry interest not exceeding 15 percentage points above the London interbank rate. It said agreements for foreign private loans and suppliers credits will automatically be approved by the bank.

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